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**PRACTICAL
INCOME TAX
AND
SUPER-TAX**

BY THE SAME AUTHOR AND FROM THE
SAME PUBLISHERS

**DICTIONARY OF INCOME TAX AND SUPER-TAX
PRACTICE**

CONTAINS a lucid statement of the rules for the preparation and adjustment of accounts for tax purposes, followed by chapters on the average system and the circumstances in which it may be departed from, the allowances due and the amount of tax payable; Dominion income tax; quarterly assessments; how to make returns; assessments on property, repayment claims, super-tax. Some extremely useful tables are also included in this edition.

The Dictionary, which was much appreciated in the early editions, has been thoroughly revised and brought up to date and included in the present edition. The scheme of this part of the work is to set out the various points in index form so as to secure the lucidity and consecutiveness of a textbook as well as the advantages of an index. Although intended principally for the use of professional and business men, Inland Revenue officials will also find their wants fully supplied.

(Prospectus Post Free on Application)

PRACTICAL INCOME TAX AND SUPER-TAX

A GUIDE FOR THE BUSINESS
MAN AND THE COMMERCIAL
STUDENT

BY

W. E. SNELLING

AUTHOR OF "INCOME TAX PRACTICE"
"EXCESS PROFITS DUTY," ETC.

SIXTH EDITION

REVISED BY C. W. CHIVERS

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PREFACE

THIS book was written for those who do not require the full information given in the author's much larger work, *Income Tax Practice*. The title should give a true idea of its purpose and scope. The reader will not be confused by long quotations from Acts of Parliament, or from judgments on appeal cases. But the general substance of these has been incorporated in an exposition of income tax law from a business point of view. The requirements of the commercial student have received special consideration, the book containing many practical examples and including in an Appendix a set of test questions (with solutions) covering the whole of the ground. Tables of income tax and super-tax have been added at the end of the book, and it is hoped that these will be found of considerable use.

CONTENTS

CHAP.	PAGE
PREFACE	V
I. THE INCOME TAX LAWS—THE INCOME TAX YEAR— THE FIVE SCHEDULES—ADMINISTRATION . . .	1
II. STATEMENT OF AGGREGATE INCOME—ALLOWANCES —EARNED INCOME RELIEF—TAXABLE INCOME— PERSONAL ALLOWANCES—CHILDREN'S ALLOW- ANCES—ALLOWANCE FOR DEPENDENT RELATIVES.	5
III. ALLOWANCES (<i>contd.</i>)—RATES OF TAX—LIFE ASSUR- ANCE—CHARGES ON INCOME—METHOD OF MAKING ALLOWANCES—REPAYMENT	11
IV. SPECIAL CIRCUMSTANCES—WIFE'S INCOME—SEPARATE ASSESSMENT OF HUSBAND AND WIFE—NON-RESI- DENTS	17
V. SCHEDULE D—"INCOME TAX" PROFIT—ADJUSTMENT OF ACCOUNTS	21
VI. SCHEDULE D (<i>contd.</i>)—SPECIMEN ADJUSTMENTS OF ACCOUNTS	25
VII. SCHEDULE D (<i>contd.</i>)—PARTICULAR DIFFICULTIES IN THE ADJUSTMENT OF ACCOUNTS	29
VIII. SCHEDULE D (<i>contd.</i>)—THE AVERAGING OF ADJUSTED PROFITS—EXAMPLES—NORMAL ASSESSMENT IN THE EARLY YEARS OF A BUSINESS—WHEN THE AVERAGE MAY BE DROPPED	32
IX. SCHEDULE D (<i>contd.</i>)—DROPPING THE AVERAGE SYSTEM—THE EARLY YEARS OF TRADING—THE EXPIRING YEARS OF A BUSINESS	36
X. SCHEDULE D (<i>contd.</i>)—FURTHER EXCEPTIONS TO THE AVERAGE SYSTEM—WHEN A LOSS IS INCURRED— RULES FOR REPAYMENT—EXAMPLES—EFFECT ON FUTURE AVERAGES—WHERE A CHANGE IN PRO- PRIETORSHIP IS FOLLOWED BY OR ENTAILS A SPECIFIC CAUSE OF LOSS	40

XI. SCHEDULE D (<i>concluded</i>)—THE ASSESSMENT OF PARTNERSHIPS—GENERAL RULES—EXAMPLES—WHERE THE FIRM HAS UNEARNED INCOME AND PAYS INTEREST—WHERE THE CURRENT YEAR'S BASIS OF THE DIVISION OF PROFITS IS NOT KNOWN—WHERE A NEW PARTNER ENTERS	48
XII. SCHEDULE E—EMPLOYEES—BONUSES, GRATUITIES, AND COMMISSIONS—EXPENSES—SALARIES PAID "FREE OF TAX"—RETURNS OF EMPLOYEES—WEEKLY WAGE-EARNERS—QUARTERLY ASSESSMENTS—ALLOWANCES AND DEDUCTIONS	56
XIII. THE DEDUCTION OF TAX FROM PAYMENTS, MADE BY TAXPAYERS—RULES UNDER WHICH DEDUCTION IS MADE—RATES OF DEDUCTION—PARTNERSHIPS—PAYMENTS NOT MADE OUT OF TAXED INCOME . .	63
XIV. THE DEDUCTION OF TAX (<i>concluded</i>)—PAYMENTS FROM WHICH TAX MAY BE DEDUCTED—WHERE THE RATE CHANGES—GENERAL RULES RESPECTING INTEREST—WAR LOAN INTEREST	68
XV. DOMINION AND FOREIGN INCOME—BASIS OF ASSESSMENT—DOMINION INCOME TAX RELIEF—RESIDENCE	74
XVI. ASSESSMENT ON PROPERTY—THREE TAXES—SCHEDULE A—REPAIRS—SCHEDULE B—TENANT'S LIABILITY—CHANGES IN OCCUPATION—LOST RENT—OWNER-OCCUPIERS—EXEMPT TENANTS AND LANDLORDS—LANDLORD'S GROUND RENT AND MORTGAGE INTEREST—BUILDING SOCIETY INTEREST—LAND TAX	80
XVII. REPAIRS—RENEWALS—REPLACEMENTS—ADDITIONS—DEPRECIATION—OBSCOLESCENCE	89
XVIII. COMPLETION OF RETURNS—FORM I—FORM II—FORM I2—EXAMPLES—PAYMENT OF TAX—INSTALMENTS	98
XIX. REPAYMENT CLAIMS—GROUNDS ON WHICH REPAYMENT MAY BE CLAIMED—LIMITATIONS WITH REGARD TO PLACE OF RESIDENCE AND TIME LIMIT—COMPLETING THE FORM—PROOF REQUIRED, VOUCHERS, ETC.	105

CONTENTS

ix

CHAP.	PAGE
XX. SUPER-TAX—GENERAL SCHEME—WHAT IS ASSUMED TO BE THE INCOME OF ANY PARTICULAR YEAR— INCOME FROM TRUSTS—UNDISTRIBUTED INCOME OF PRIVATE COMPANIES—DEDUCTIONS AND ALLOW- ANCES—HOW TO MAKE A RETURN—GENERAL RULES —LIMITS AND RATES	112
XXI. CORPORATION PROFITS TAX	118
APPENDIX I—TEST EXERCISES AND SOLUTIONS .	125
APPENDIX II—TABLES OF INCOME TAX AND SUPER- TAX RATES	134
INDEX	143

INSET

REPAYMENT CLAIM	<i>bet. pp. 106-107</i>
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PRACTICAL INCOME TAX

CHAPTER I

THE INCOME TAX LAWS—THE INCOME TAX YEAR— THE FIVE SCHEDULES—ADMINISTRATION

WITH the present heavy rate and wider incidence of the income tax, a general knowledge of the subject is now becoming a practical necessity to the bulk of the public. A good working knowledge is almost an essential qualification to anyone holding, or hoping to hold, the position of responsible clerk or accountant to a concern of any standing ; whilst amongst private individuals there are few who are not affected either by direct assessment of salary or property or by deduction of tax from war loan interest or other dividends. The subject is undoubtedly an intricate one, but a sufficient knowledge of it can be acquired with a reasonable amount of effort. Perhaps to the business student the fact that such a satisfactory knowledge of the commercial aspect of the taxing laws is not often met with in the business, may make the study still more worth while.

Income Tax Laws.

A preliminary note as to the income tax laws and their administration may be useful to the reader. Income tax is an annual charge, the sole sanction for which is contained in the annual Finance Act or Acts. Without such sanction no tax may be levied. Continuity is secured, however, by the following provisions—

(i) A permanent authority for the necessary administrative and preparatory work to be proceeded with before the passage into law of the Finance Act reimposing the tax ;

(ii) A permanent authority for tax to be levied at the previous year's rate for the first month of the fiscal year ;

(iii) An authority for a resolution of the House of Commons reimposing the tax at a stated rate to have the force of law for four months or until the Finance Act passes into law, whichever is shorter.

(iv) A provision in the Finance Act of each year continuing the general body of income tax law for that year, with any necessary additions or alterations.

Until 1918 income tax legislation was contained in a very large number of Acts dating from 1842. A Consolidating Enactment was then passed into law under title "*The Income Tax Act, 1918.*" The existing law is, therefore, contained in this Act and in the Finance Acts, 1919 to 1924. There is also a great deal of "case law."

The Income Tax Year.

The income tax year runs from the 6th April in one year to the 5th April in the succeeding year. Thus the fiscal year 1924-25 means the year 6th April, 1924, to 5th April, 1925. Where assessments are made quarterly, as in the case of manual wage earners, the quarters end on 5th July, 5th October, 5th January, and 5th April.

The Schedules.

Incomes are classified into five schedules, described under the letters A, B, C, D, and E.

Schedule A covers income arising from the ownership of property in the United Kingdom. It is dealt with in Chapter XVI.

Schedule B covers income arising from the occupation of land in the United Kingdom and this also is dealt with in Chapter XVI.

Schedule C covers interest, etc., on public loans from which tax is deducted before receipt. Sufficient information is given in Chapter XIV.

Schedule D is the most important schedule, as it covers income from trade, etc., as well as all income not included in other schedules. It has six sub-divisions or "cases," viz. :

Case 1, trades ; Case 2, professions and vocations ; Case 3, interest not taxed before receipt and profits of an uncertain value ; Case 4, colonial and foreign securities (debentures, mortgages, etc.) ; Case 5, colonial and foreign possessions (property, shares, etc.) ; Case 6, miscellaneous profits not falling under any of the foregoing cases. The larger part of this book is devoted to Schedule D.

Schedule E covers all employments whether under the Crown, companies, societies, public bodies, firms or individuals.

The Administration.

There are three classes of officials concerned in this matter—

(i) The representatives of the Crown, including—

(a) The Treasury which, with the Chancellor of the Exchequer, exercises a general authority.

(b) The Board of Inland Revenue which, with its administrative and clerical staff, actually directs and carries into operation the work required to give effect to the provisions of the Acts.

(c) The district Inspectors of Taxes (formerly called "Surveyors") who (acting under superior officers at Somerset House) represent the Crown in all matters regarding the making of assessments, and the determining of appeals. These are the officials to whom the taxpayer should go whenever a question arises as to particular assessments. They are Civil Servants paid by fixed salaries.

(ii) The local Commissioners of Taxes, who are unpaid gentlemen of some standing (there is a property qualification), and to whose discretion is left the determination of all differences between the taxpayer and the representatives of the Crown. The legal Courts may be appealed to on any question of law. The Commissioners have a Clerk to advise them, to issue notices of assessment, etc., to the taxpayer, and to carry out other clerical work with regard to the assessment. The Clerk is paid by the Board of Inland Revenue, but he is appointed annually by the local Commissioners.

(iii) The local Assessors and Collectors, whose duty it is to

serve and obtain forms of return, to give general advice to the authorities concerning local matters, and to collect the tax due. These officials are not Civil Servants. They are usually appointed by the local Commissioners, but are paid by the Board of Inland Revenue.

CHAPTER II

STATEMENT OF AGGREGATE INCOME—ALLOWANCES—EARNED INCOME RELIEF—TAXABLE INCOME—PERSONAL ALLOWANCES —CHILDREN'S ALLOWANCE—ALLOWANCE FOR DEPENDENT RELATIVES

As stated in the previous chapter, income tax is assessed under five separate schedules, and it is quite possible for a taxpayer to be liable under each head. For example, a man might be in possession of a house and lands (charged under Schedules A and B), a salary (charged under Schedule E), a business (charged under Schedule D), and war loan interest (charged under Schedule C). No matter the source from which income arises or the size of the total income, however, every individual is entitled to certain reliefs and allowances, *provided a statement of aggregate income is made on the prescribed form*. The income returned from each source must be the "statutory income" of the taxpayer and his wife, as calculated in accordance with the Acts, and as explained in the various chapters dealing with the above schedules. The total statutory income is returned as explained in Chapter XVIII, and, if the taxpayer is not in receipt of a form for the purpose, application should be made to the local inspector of taxes. On this form the taxpayer will find spaces in which the various allowances enumerated below may be claimed, and when these have been correctly filled up, the allowances will be granted automatically by the inspector from the assessment. The various reliefs are calculated according to the following rules.

Earned Income Relief.

From the total income an allowance is made in respect of earned income. The deduction allowed is one-tenth of the earned income, provided that the deduction does not exceed

£200 in the case of any individual. In this connection "earned income" includes the profit of any trade, employment, etc., carried on by the taxpayer, and a pension or similar payment in respect of past employment. Dividends, rents (except where they are part of the emoluments of an office, e.g. a clergyman's), annuities, or the profits of a sleeping partner, are not within the allowance. The total income as reduced by the earned income relief is known as the "assessable" income.

EXAMPLE 1. A has a salary of £300 a year and £50 from investments. His assessable income is £320, i.e. £350 less one-tenth of £300.

EXAMPLE 2. B runs a business and his profit as agreed for income tax purposes is £500. His wife has a separate salary as typist of £150 a year. The total income is £650 and B is assessable on £585, i.e. £650 less one-tenth.

EXAMPLE 3. C is a professional man with an income of £3,000. His annual income from investments is £300, and his wife's is £500. C's aggregate income is therefore £3,800, and the earned income relief will be the maximum of £200, *not* £300, thus leaving an assessable income of £3,600.

Taxable Income.

The assessable income having been determined according to the above rule, deductions are then made in respect of the personal allowance, the children's allowance and dependent relatives' allowance, as under the following headings. If by reason of these allowances the taxable income is reduced to *nil*, total exemption is naturally given. If the allowances exceed the total income, tax is not repaid on the excess, nor can any relief be carried forward for a following year.

Personal Allowance.

Every unmarried individual is granted an allowance of £135 from his assessable income (i.e. the total income as reduced by any allowance for earned income). Bachelors,

spinsters, widows, and widowers are entitled to this abatement. Every individual who proves that he has a wife living with him for the year of assessment, is entitled to a marriage allowance of £225 from his assessable income. Where the income includes earned income of the wife, the allowance may be increased by nine-tenths of the first £50 of that earned income.

EXAMPLE 1. D, an unmarried clerk, has a total income represented by his salary of £250. His assessable income is therefore £225 (£250 less one-tenth), and his taxable income £90 (£225 less abatement of £135).

EXAMPLE 2. E is a married man with a total income (all from investments) of £300. His assessable income will remain £300, and his taxable income will be £300 less £225 = £75.

EXAMPLE 3. F is a married man with a salary of £250, and his wife also earns £30 a year. The total income is £280, from which deductions should be made as follows: earned income relief £28 (one-tenth of £280), personal allowance £225 *plus* £27 (nine-tenths of £30). The net taxable income is therefore *nil* (£280 less allowances £280).

EXAMPLE 4. G earns £300 a year and wife £100. G's assessable income is hence £360 (£400 less one-tenth), and to arrive at the taxable income the deductions will be £225 normal personal allowance *plus* the maximum allowance for wife's earned income of £45. The taxable income will therefore be £90 (£360 less £270). This example illustrates the fact that where the maximum relief is given for wife's earned income, the total personal allowance is £270, which is the same as treating husband and wife as two unmarried persons entitled to an allowance of £135 each.

Children's Allowance.

A deduction is made from assessable income in respect of children (including adopted children) as follows: £36 in respect of one child, and £27 in respect of any others. The children for whom the allowance is claimed must be under 16 and

living on the 6th April commencing the fiscal year concerned, or 16 and over, but receiving full-time instruction at an educational establishment. The expression "child" includes a step-child, an illegitimate child where parents have married since its birth, and (where no one else claims the allowance) any other child maintained by the taxpayer. Where the child has income in its own right exceeding £40 a year (not including income from scholarships or bursaries), no deduction can be made.

EXAMPLE. H has an assessable income of £400. He is married, with three girls aged 5, 8, and 15, and a boy aged 18. The eldest girl is a typist earning £60 a year, and the son is at college with a scholarship of £100. The reliefs to which H is entitled are the personal allowance of £225, and £90 allowance for three eligible children (£36, £27, and £27). The girls of 5 and 8 are eligible but the eldest girl is not owing to her income exceeding £40 a year, while allowance is given for the son over 16 as he is in full-time attendance at a college, his £100 scholarship not being regarded as disqualifying income for this purpose. H's taxable income is therefore £400 less £225 and £90 = £85.

Allowances for Dependent Relatives.

(1) A deduction of £60 from assessable income is allowed to a widower who has living with him, for the purpose of acting as housekeeper, a female relative of his own or his deceased wife.

(2) A deduction of £60 from assessable income is allowed to an unmarried man who has living with him, for the purpose of having the charge of brothers or sisters of his within the children's allowance, his widowed mother or other female relative whom he maintains at his own expense.

It should be noted that the allowance under (1) is extended to a widow with a female relative of her own or of her late husband, and is also granted where a claimant proves that he or she has no relative able or willing to act as housekeeper and has employed some other female for the purpose; and

that (2) applies to an unmarried woman with a widowed mother living with her.

(3) A deduction of £25 is allowed in respect of a relative of the taxpayer or his wife who is unable to support himself (or herself) and is not in receipt of more than £50 per annum.

A deduction of £25 is also made in the case of a claimant who, owing to old age or infirmity, is compelled to depend on the services of a daughter resident with and maintained by him or her.

N.B. The expression "relative" for the purpose of the above three allowances includes any person of whom the person claiming the deduction had the charge, and whom he maintained at his own expense while that person was under 16 years of age.

EXAMPLE 1. J, a widower, has an assessable income of £500 and employs his wife's sister to act as housekeeper and to take charge of two children under 16. His taxable income is £242, i.e. £500 less £135 personal allowance, children's allowance £63 (£36 and £27), and housekeeper's allowance of £60.

EXAMPLE 2. K, a spinster, maintains her widowed mother at her own expense for the purpose of having the charge of three brothers, all under 16 years of age. Her income is £400 a year, all earned. Her taxable income will be computed as follows—

Income	£400
<i>Deduct</i> —Earned Income Relief (r _b)	£40
Personal Allowance	135
Allowance for 1st Brother	36
" " 2nd "	27
" " 3rd "	27
" " mother	60
	<hr/> 325
Taxable Income	<hr/> £75

EXAMPLE 3. L is a married man with an assessable income of £400, who contributes £20 a year to the support of his

aged mother. This £20, together with another £20 contributed by another son, represents the mother's total income. From L's assessable income of £400, £225 will be allowed as the personal abatement, and £12 10s. (one-half of the dependent relative's allowance of £25), leaving a taxable income of £162 10s.

CHAPTER III

ALLOWANCES (CONTINUED)—RATES OF TAX—LIFE ASSURANCE CHARGES ON INCOME—METHOD OF MAKING ALLOWANCES— REPAYMENT

To recapitulate the procedure given in the previous chapter, after the total income from all sources has been computed according to the Income Tax Acts, the necessary deduction is made from the earned portion of the income to arrive at the *assessable income*. From the assessable income, deductions are then made in respect of the personal allowance and the allowances for children and dependent relatives to arrive at the *taxable income*.

Rates of Tax.

The taxable income thus computed is taxed as follows—

THE FIRST £225 OF TAXABLE INCOME AT HALF OF THE STANDARD RATE.

THE REMAINDER AT THE STANDARD RATE.

The standard rate for 1924–25 is 4s. 6d.; for 1923–24 it was the same; for 1922–23 it was 5s.; and for 1921–22 and 1920–21 it was 6s.

EXAMPLE. A taxable income of £365 would for 1924–25 be charged as follows—

£225 @ 2s. 3d.	£25 6 3
£140 @ 4s. 6d.	31 10 0
<hr/> Total £365	<hr/> £56 16 3

Life Assurance.

Unlike the allowances dealt with above, the allowance for life assurance premiums is made *after* the tax normally due has been computed. In other words, what is allowed is *tax*

on such premiums as are allowable, the rates being as follows—

(a) *Half the standard rate* in all cases where the policy was taken out after 22nd June, 1916 ; otherwise where the total income does not exceed £1,000.

(b) *Three-fourths of the standard rate* where the total income exceeds £1,000 but not £2,000, and where the policy was taken out prior to 22nd June, 1916.

(c) *The full standard rate* where the total income exceeds £2,000 and where the policy was taken out prior to 22nd June, 1916.

The standard rate for 1924–25 is 4s. 6d., the rate under (a) therefore being 2s. 3d., under (b) 3s. 4½d., and under (c) 4s. 6d.

Where by reason of the aggregate income just falling short of £1,000 or £2,000, the net tax payable after deduction of the allowance is greater than it would have been if the income had exceeded those limits, the following adjustment may be made. The allowance may be increased by a sum representing tax at 1s. 1½d. on the premiums and decreased by tax at 4s. 6d. on the amount by which the income falls short of the limit (*see Example (5) below*).

Premiums Allowable.

The allowance is not made in the case of all life assurance premiums, but only in the case of such as comply with the following rules—

(1) The premiums must be annual sums due under a life assurance policy or under a deferred annuity contract on the life of the taxpayer on his wife (premiums on the lives of children are not allowable). Persons liable by statute or under the terms of their employment to make an annual payment or to have an annual sum deducted from salary in respect of a deferred annuity in case of death for widow or children, are entitled to an allowance in respect of the annual premium paid.

(2) The premiums for which allowance is made must not in all exceed one-sixth of the total income as computed under

the Acts ; e.g. on an aggregate income of £1,800, no allowance would be given on premiums in excess of £300.

(3) The allowance on any one premium must not exceed 7 per cent of the sum assured where the policy secures the payment of a capital sum at death ; e.g. on a policy insuring £1,000 at death, the income tax allowance will be restricted to tax on £70 (7 per cent of £1,000).

(4) Where no capital sum is assured at death the allowance on any one premium must not exceed £100 ; e.g. if £150 per annum is paid in respect of an annuity payable at age 65, no allowance would be given on £50 of the premium.

(5) Where a policy is taken out after the 22nd June, 1916, no allowance whatever can be made unless a capital sum is secured at death.

EXAMPLE 1. A is a single man with an income (all investment) of £600, and he pays £25 a year on a pre-war life assurance policy insuring £500 at death. His taxable income is £465, tax on which is £79 6s. 3d. From this there will be allowed £25 at 2s. 3d., i.e. £2 16s. 3d., leaving net tax due of £76 10s.

EXAMPLE 2. B is a married man with three children and an income (all investment) of £1,800. He pays £120 a year on a deferred annuity policy which was taken out before 1916. His taxable income is £1,485, tax on which is £308 16s. 3d. The relief to be allowed from this is £100 at 3s. 4½d., or £16 17s. 8d., leaving a net liability of £291 18s. 7d. Relief is not given on the full £120 owing to the restriction stated under Rule (4) above.

EXAMPLE 3. C has a total income of £3,000, and he pays £600 a year on a life policy taken out in 1914. Under Rule (2) above, the allowance to be made is restricted to one-sixth of the income, in this case £500, and relief will therefore be £500 at the full rate of 4s. 6d. or £112 10s.

EXAMPLE 4. D has a total income of £1,750, and he took out two policies in 1920, one securing a capital sum at death for an annual premium of £25, and the other securing a deferred annuity for his wife at a premium of £30. Under

As allowances are computed on total income and income may arise in different localities, it often happens that the reliefs due have to be spread over assessments made by different inspectors of taxes ; e.g. a person might conduct a business in London, be a director of a Liverpool company, and own a house in Surrey. Supposing a return of total income were made from the place of business in London and that the total allowances due exceeded the business income, the London inspector would notify the other districts with a view to giving full relief, either against the assessment on house or director's fees or both.

Repayment.

All the allowances enumerated in this and the preceding chapter may be claimed within six years after the fiscal year concerned. Claims cannot now be made in respect of the years prior to 1920-21. (See Chapter XIX for repayment claims).

CHAPTER IV

SPECIAL CIRCUMSTANCES—WIFE'S INCOME—SEPARATE ASSESSMENT OF HUSBAND AND WIFE—NON-RESIDENTS

As already stated, the income tax laws require a return of the wife's income by the husband. The law on the subject is as follows—

(1) For purposes of returns and payment of duty a husband must regard his wife's income as his own, and the wife has no liability, except as under (2).

Thus, assuming an income as follows—

<i>Husband</i>	(a)	Trade profits (average)	.	.	.	£450
	(b)	Property (net)	.	.	.	83
	(c)	Dividends (gross)	.	.	.	121
<i>Wife</i>	(d)	Salary	.	.	.	300
	(e)	Dividends (gross)	.	.	.	48
						£1,002

the husband is responsible for tax on (a) and (d); tax will have been deducted from (b), (c) and (e).

Separate Assessment of Wife.

(2) If either the husband or the wife makes application between 6th January preceding the year of assessment and 6th July within that year, the wife may be dealt with separately in respect of her own income. She is then liable for the performance of all necessary acts and for payment, but the husband's goods may be distrained on (after seven days' written notice) if the duty is not paid. *The application in question cannot serve to reduce the amount of tax otherwise payable.* No additional allowances are made, but all allowances may be apportioned as below.

Thus, assuming an income as above, the husband is responsible for tax on (a), the wife on (d), and tax will have been

deducted from (b), (c) and (e). If, however, the wife fails to pay tax on (d), the husband may be distrained on.

(3) In estimating the amount of any deductions or allowances due, the income of the husband and wife must be treated as one. If notice has been given as under (2), a joint return may be made by either, but the authorities may require a return from the other if thought necessary; the allowances are to be apportioned as follows—

Earned Income Relief. According to the earned income of each.

Personal Allowance and Children's Allowance. In proportion to the assessable income of the husband and wife respectively.

Reduction of the Rate of Tax. According to the assessable income of the husband and wife respectively.

Adopted Child or Dependent Relative. To the person maintaining the child or relative.

Life Assurance Allowance. To the person paying the premium.

EXAMPLE I—

<i>Husband</i>	(a) Trade profits (average)	.	£340	£
	(b) Dividends (gross)	.	60	
			<hr/>	400
<i>Wife</i>	(c) Salary	.	120	
	(d) Dividends (gross)	.	60	
			<hr/>	180
	Aggregate income	.		<hr/> £580

Allowances would be due as follows, if a claim under (2) had been made—

Earned Income Relief. To (a) and (c). The husband's assessable income will hence be £366 and the wife's £168.

Personal Allowance. Of a total £270 (£225 plus £45 in respect of wife's earned income), £185 from (a) and £85 from (c), viz., $\frac{3}{4}$ of £270 and $\frac{1}{4}$ of £270 respectively.

Children's Allowance. If there were two, the allowance of

£63 would be divided in the same proportion as the marriage allowance.

The assessments would be—

	(a) <i>Husband</i>	(b) <i>Wife</i>
Total Income . . .	£340	£120
Less Earned Income Relief	£34	£12
„ Personal Allowance	£185	£85
„ Children's Allowance	£43	£20
	£262	£117
Taxable Income	£78	£3
Tax @ 2s. 3d. in the £ :	£8 15s. 6d.	6s. 9d.

If the husband paid £8 in life assurance premiums and his wife £3, a deduction of 18s. would be allowed from the £8 15s. 6d. due from the husband, and a deduction of 6s. 9d. from the tax due from the wife. The net tax payable would hence be £7 17s. 6d. in the case of (a) and nil in the case of (b).

Non-Residents.

Individuals not resident in the United Kingdom are not allowed any of the reliefs enumerated in Chapters II and III unless they come within any of the following categories—

- (1) British subjects ;
- (2) Persons in past or present Government employment ;
- (3) Persons serving under a British Protectorate ;
- (4) Missionaries ;
- (5) Residents in the Channel Islands or Isle of Man ;
- (6) Widows whose husbands were Crown servants ;
- (7) Persons formerly resident in the United Kingdom who are compelled to reside abroad for the sake of their own health, or the health of a member of their family resident with them.

The allowance to be made in such cases, however, may not serve to reduce the tax payable below a certain amount, which is determined in the following way. Compute the total income from all sources (British and foreign) and calculate the tax thereon in the ordinary way, as shown in Chapters II and III. The Acts then require that the minimum tax to

be borne by the non-resident must bear the same proportion to the tax thus computed, as the British income bears to the total income from all sources. The working of this provision will be made clear in the following example—

X, a British subject, is resident mining engineer to a South African company at a salary of £500. He has investments in England producing £300 a year in taxed dividends (gross). He is married and wishes to claim relief from the tax suffered on his English dividends. Assuming the total income were liable to British tax, the amount payable would be—

Total Income	.	.	£800
Earned Income Relief	.	.	£50
Personal Allowance	.	.	225
		—	275
			<u>£525</u>
Tax on £225 (a) 2s. 3d.	.	.	£25 6 3
„ „ £300 (a) 4s. 6d.	.	.	67 10 0
Total	£525		<u>£92 16 3</u>

If we proceed according to the rule given above, the total income £800 must bear the same proportion to the British income of £300 as the total tax £92 16s. 3d. bears to the minimum tax due. The minimum will therefore be £34 16s. 1d. The actual tax suffered on the dividends arising in England is £67 10s. (£300 at 4s. 6d. in the £), and X may therefore claim repayment of the tax in excess of the statutory minimum, i.e. £33 13s. 11d. (£67 10s. less £34 16s. 1d.).

(For the general rules of assessment applying to dominion and foreign income see Chapter XV.)

CHAPTER V

SCHEDULE D—"INCOME TAX" PROFIT—ADJUSTMENT OF ACCOUNTS

IN the previous chapter the general method of computing the allowances and tax due from total income has been outlined. It is now necessary to deal in detail with the estimation of income from various sources as required by the Income Tax Acts. By far the most important class of income from a taxation point of view is that which comes under Schedule D. As stated in Chapter I, Schedule D is sub-divided into six "cases," the most important of these being Cases I and II, which cover the profits arising from trades and professions. The present chapter and Chapters VI and X are devoted to typical assessments on such profits. Though in most of the examples the case of a private trader has been taken for the sake of simplicity, the same general methods apply in the computation of the profits and income tax average of companies, though it must be borne in mind that limited companies are taxed at the full rate, and are granted none of the allowances and deductions permitted to a private individual.

"Income Tax" Profit.

The question which most traders ask at their first contact with the income tax regulations is "Why cannot I pay on what I make? Here are my books and this is my profit! Why not calculate the tax on that and close the matter?"

Now it must first be realized that some *standard* is necessary if the incidence of the tax is to be at all equitable. Temperament has a good deal to do with the drawing out of a profit and loss account. A sanguine trader may reckon his profit at £1,000, whereas his more cautious neighbour would have reduced it to £700 by adding £300 to reserve. If the Income Tax Commissioners were allowed to view the result only, it is certain that the whole business world would commence to

build up reserves at an unprecedented rate. Again, one trader may charge his subscriptions to his business, while another subscribes from his private pocket only. It is obvious that in these and many other matters the law must step in with its standard. If the standard is harsh in some ways it must be remembered that its application is general. All this is intended to induce the reader to realize that, while the taxing laws are undoubtedly imperfect, they are yet founded for the most part on reasonable considerations. A little sympathy with the subject will make comprehension very much quicker, besides assisting the reader to an insight into the *principles* of the law which will be invaluable.

Turning therefore to the question asked above we say—“Here is your profit, certainly, but have you reduced it to its present figure by charging any expenses not allowed according to the income tax standard? Or is your profit unduly inflated through omission to charge something which is allowed by that standard?” If either question is answered in the affirmative an *adjustment* is necessary, viz.—

(a) The *addition* to the profit of any expenses charged but not allowable for income tax purposes ;

(b) The *deduction* from the profit of any expenses allowable for income tax purposes but which have not as yet been charged.

As a general rule we adjust, in this manner, the accounts of the past three years and average the results, as will be shown later.

The adjustment of accounts for income tax purposes is governed by considerations which may be presented in the form of five rules. *Commencing with the profit arrived at by the trader for his own purposes—*

(1) *Capital matters ; add* any expenses on account thereof which have been charged against revenue in the accounts ; *deduct* any receipts on account thereof included as trade receipts ;

(2) *Personal matters ; add* any expenses on account thereof which have been charged against revenue in the accounts ;

(3) *Irrelevant matters* ; *add* any expenses not exclusively incurred in earning profits but which have been charged against revenue in the accounts ;

(4) *Interest and similar payments* from which tax may be deducted by the payer ; *add* any such amounts included in the expenses charged in the accounts ; *deduct* any such amounts included in the trade receipts (the deduction of tax from such payments is explained in a later chapter) ;

(5) *Reserves* ; *add* any sums which have been added to reserve ; *deduct* any revenue expenses or losses which have been charged against reserve.

As regards rule (1) it should be observed that *capital charges* include such matters as the following, viz.—

Preliminary expenses and other expenditure incurred in setting up business ;

All expense of obtaining capital, including interest thereon ;

All additions and improvements to assets.

Capital receipts would include—

A premium on the issue of the share capital of the business ;

Repayment of loans, etc.

Under rule (2), *personal expenses* include—

Salaries, drawings or interest on capital credited to the proprietor or his wife ;

Income tax ; and

A proportion of rent, rates, lighting, etc., where the proprietor resides on business premises.

Under rule (3) would fall charitable subscriptions, etc.

Rule (4) includes—

Ground rent ;

Interest on fixed loan ;

Mortgage interest ;

Debenture interest ; and

Patent royalties.

Among the items not to be assessed again are—

Taxed dividends ;

Taxed rents, etc.

Rule (5) includes—

Bad and doubtful debts reserves ;
Suspense accounts ; and
General reserves.

Examples.

These rules will now be elaborated in a few examples taken from everyday business experience. It is suggested that the reader should decide how he himself would treat each item before he refers to the solutions which follow.

It is required to state what adjustments are necessary for income tax purposes in the following cases—

(a) A firm's accounts show a profit of £600, after charging legal expenses £18, representing £10 for the collection of debts, £3 for a deed of partnership, and £5 in connection with a lease of trade premises.

(b) A trader's accounts show a profit of £210 after charging £10 interest on his capital, £52 wages to his wife, and £78 wages to his son.

(c) A company's accounts show a profit of £1,200 after £17 has been charged against revenue as the cost of issuing debentures and £40 as debenture interest.

(d) A trader's accounts show a profit of £500 after £100 has been added to Bad Debts Reserve ; during the year £38 has been written off such Reserve to meet actual bad debts ; the trader owns his trade premises (assessed £70 net) and has made no charge for rent except £10 ground rent paid by him.

Adjustments should be made as follows—

(a) Add £3 and £5 to the £600 in accordance with rule (1).

(b) Add £10 and £52 to the £210 in accordance with rule (2).

(c) Add £17 to the £1,200 in accordance with rule (1) and £40 in accordance with rule (4).

(d) Add £100 to the £500 (rule (5)), deduct £38 (rule (5)) deduct £70 (rule (4)), and add £10 (rule (4)).

CHAPTER VI

SCHEDULE D (CONTINUED)—SPECIMEN ADJUSTMENTS OF ACCOUNTS

It will be assumed that the book-keeper or accountant has open before him the following *Trading* and *Profit and Loss* Accounts. The profit shown thereby is £1,706, but it is by no means certain that this is the profit according to the income tax standard. The accounts referred to must be closely scrutinized. Readers desiring to master the subject will find it good practice to make the necessary adjustments themselves before referring to the solution which follows. (For Profit and Loss Account, see page 27.)

The rules of adjustment referred to in the previous chapter may be summarized as follows. Exclude from revenue accounts (1) capital matters; (2) personal matters; (3) irrelevant matters; and (4) payments and receipts from which tax has been deducted; and (5) neutralize any entries affecting reserves.

Dr.		TRADING ACCOUNT		Cr.	
Jan. 1	To Stock on hand . . .	£ 2,400	Dec. 31	By Sales . . .	£ 21,174
Dec. 31	„ Purchases . . .	9,314		„ Stock on hand . . .	2,735
	„ Wages and Supervision . . .	8,017			
	„ Rent of Factory . . .	450			
	„ Ground Rent on Warehouse owned by Firm . . .	15			
	„ Rates, Taxes, Lighting, Heating, etc. . .	127			
	„ Replacements of Machinery . . .	150			
	„ Gross Profit . . .	3,436			
		<u>£23,909</u>			<u>£23,909</u>

Trading Account.

We pass the credit entries as satisfactory, likewise the first two debit entries.

Wages and Supervision. This item may be passed provided that no part thereof is paid to the proprietors. In this case we will assume that two partners each take £150 for supervision.

Rent of Factory. This is a proper charge.

Ground Rent on Premises Owned by Firm. In paying this

ground rent the firm should have deducted tax (i.e. instead of paying £15 they should have paid £15 less tax on £15). It follows that it must not be set against the profits to be charged under Schedule D. On the contrary the tax deducted must be paid over to the Revenue. This will be done as follows. The warehouse will be assessed to duty under Schedule A (property tax), say at £90 gross, £75 net. The firm as owners will bear tax on £75 less the proportion recovered on the ground rent. Having thus met their liability as owners, the firm must not pay tax again on the value of the warehouse as traders, but should charge the £90 (or else the £75, plus the cost of repairs) as the expense to the trade for the use of the warehouse.¹ The requisite adjustments, therefore, will be the addition of ground rent improperly charged and the deduction of £75 (as repairs are assumed to have been charged) omitted to be deducted in the accounts.

Rent, Rates, Taxes, etc. Income tax is a personal expense and may not be set against profits. We may assume that £4 tax under Schedule A has been charged. If Excess Profits Duty had been paid it could have been deducted in the account.

Replacements of Machinery. This item must be carefully looked into. If an allowance is made for depreciation (see next page) the cost of replacements may not be charged against revenue for income tax purposes. Otherwise the charge may be passed, provided that it represents replacements only and not additions or improvements.

Profit and Loss Account.

As we have seen the trading account, the first credit item is obviously satisfactory. If we had not seen the trading account a correct adjustment could not be made.

Dividends. Tax has no doubt been deducted from this item; it must therefore be deducted from the profit for assessment purposes.

Rates and Taxes. The proportion of this representing income tax must be disallowed as an expense (say £92).

¹ See under *Depreciation of Buildings*, Chapter XVII, for special

Dr.		PROFIT AND LOSS ACCOUNT		Cr.	
Dec. 31	To	Rent of Office	100	Dec. 31	By Trading Account
		Rates and Taxes	134		" Dividends
		Salaries	743		
		Interest	137		
		Depreciation of Ware-			
		house Lease	20		
		Ditto Machinery	50		
		Ditto Fixtures	5		
		Ditto Investments	10		
		Reserve for Bad Debts	100		
		" " Contingencies	100		
		Interest on Capital, A B	240		
		" " " C D	138		
		Lighting, Heating, etc.	13		
		Stationery, etc.	29		
		Gratuities and Dona-			
		tions	35		
		Balance—Net Profit	1,706		
			£3,560		£3,560

Salaries. Disallow all amounts credited to partners (say £200 each).

Interest, §137. Under rule (4), deduct any items received which have already suffered tax, and add any items paid from which tax has been deducted by the firm. If the §137 is interest on a bank overdraft required for trade purposes it may be passed. If it is interest on a fixed loan, tax should have been deducted therefrom and the item must be disallowed for income tax purposes. If it is the balance of the interest account, that account must be scrutinized and each item therein dealt with under rule (4). In this particular case the §137 may be assumed to represent interest on a bank overdraft used for trade purposes.

Depreciation of Warehouse Lease. } These deductions are
 " " *Investments.* } disallowed under rule (1),
 } but see Chapter XVII.

Depreciation of Fixtures. This item will now be allowed if at a reasonable rate and if the cost of renewals is capitalized.

Depreciation of Machinery. Rule 1 prohibits any deduction on this account, but under a special enactment a deduction may be made from the assessment. The charge must be disallowed here, and an allowance obtained after the average

is struck. The matter should be arranged with the Inspector of Taxes. This subject is so important that special consideration is given to it in Chapter XVII. An allowance for the depreciation of fixtures may now be claimed.

Reserve for Bad Debts. Disallow this item, rule (5), but allow any revenue charges out of such reserve. It may be assumed that £80 has been written off on account of actual and specific bad debts, and that a debt of £12 formerly written off but now recovered has been added straight to the reserve and not carried to the Revenue Account. £100 and £12 must be added and £80 deducted.

Reserve for Contingencies. Disallow this, under the same rules necessitating the adjustments for Bad Debts Reserve.

Interest on Capital. Disallow this under rule (1) or rule (2).

Gratuities and Donations. The £35 may be assumed to include £20 paid to employees by way of bonus, £10 to a local Relief Fund, and £5 to a particular hospital, in return for which special benefits will be allowed to the firm's employees. The £10 should be disallowed.

Adjustment.

The adjustment will be as follows—

<i>Profit per A/c</i>	£1,706	£
<i>Add—</i> Wages to Partners.	300	
Ground Rent	15	
Tax, Schedule A	4	
D	92	
Salaries to Partners	400	
Depreciation of Lease	20	
Investments	10	
Machinery	50	
Reserve for Bad Debts	100	
" " " " " "	12	
" " Contingencies	100	
Interest on Capital, A B	240	
" " C D	138	
Donation	10	
	<hr/>	3,197
<i>Deduct—</i> Annual Value of Warehouse	75	
Dividends	124	
Bad Debts	80	
	<hr/>	279
<i>Profit for Income Tax purposes</i>		<hr/> £2,918

CHAPTER VII

SCHEDULE D (CONTINUED)—PARTICULAR DIFFICULTIES IN THE ADJUSTMENT OF ACCOUNTS

PASSING reference to Interest Account was made in the preceding chapter. If the trader's *Profit and Loss Account* shows a profit of £1,450 after a charge on the debit side "To Interest £34," it will *not* suffice to disallow that charge and to assume the profit for income tax purposes to be £1,450 plus £34.

Interest Account.

It is necessary to scrutinize the *Interest Account*, and the matter is simplified if it is remembered that the carrying of the balance of that account to the *Profit and Loss Account* is equivalent to the carrying of all its debit items to the debit side and all its credit items to the credit side of the *Profit and Loss Account*. In considering the following account, therefore, we shall recognize that all interest received is included in the receipts and all interest paid in the payments recorded in the *Profit and Loss Account*.

Dr.	INTEREST ACCOUNT		Cr.
	£		£
To Short Trade Loan	89	By Debenture Interest, B C & Co., Ltd. (less Tax)	54
„ A. Baker (£2,400 at 6%, less tax)	113	„ Dividends, B C & Co., Ltd. (free of tax)	104
„ Bank Overdraft	23	„ D. Evans (£500 at 8%, less tax)	33
		„ Balance to P. & L. A/c	34
	£225		£225

The rules for adjustment are to exclude from receipts all interest already taxed by deduction, and to exclude from payments all interest from which the trader has deducted tax. The reason for the first is obvious. As regards the latter, as

well as paying tax on his own net profit, the trader must hand over the tax he has deducted from his creditors.

ADJUSTMENT

Profit per Profit and Loss Account	.	.	£	1,450
Add—Interest paid "less tax"	.	.	.	113
				<hr/>
			£	1,563
Deduct—Taxed Debenture Interest	.	.	54	
" Dividends	.	.	104	
" Interest	.	.	33	
			<hr/>	191
Profit for Income Tax purposes	.	.		<hr/>
			£	1,372

Tax is not deducted from interest paid on short trade loans or a bank overdraft. A dividend paid "free of tax" is merely one on which the company has paid tax out of undivided profits without making a corresponding deduction from the profits distributed as dividend.

Cash Account.

Those traders who keep record of cash receipts and payments only should observe the rules of adjustment given in regard to Profit and Loss Accounts, but they must also take account of differences in stock and debts outstanding at the beginning and the end of the year. Thus, if a trader's stock has increased £40, and if debts owing by him have decreased £30 and debts owing to him have decreased £20, he must add £40 and £30 to the profit otherwise shown, and deduct £20.

General.

Premises Sub-let. It is preferable to exclude all items in this connection from both sides of the account. But where the property sub-let and the property occupied for trade-purposes are not separately rented and rated, all charges and receipts must be allowed to remain in the account.

The Taxpayer's Residence on Trade Premises. Part of the rent must be disallowed from among the trade expenses,

according to circumstances, viz., one-third (usually) of the rent, and a due proportion of lighting expenses, water rate, etc. (say one-fifth, or as the particular facts require). There is no specific enactment as to the minimum proportion of rates to be disallowed, but it is usually taken to be the same as the disallowance of rent.

Employees' Rent-free Residence. The expense incurred by the proprietor in providing such residence is a permissible trade expense.

Subscriptions to Trade Associations. In case of doubt, inquiry should be made of the association concerned as to any arrangement come to with the Revenue authorities.

Life Assurance Receipts. No deduction should be made in the accounts. After the average has been struck and the taxable income ascertained, an allowance (up to one-sixth of the aggregate income) may be made therefrom at certain rates in respect of premiums on the life of the taxpayer or his wife. (See Chapter III.)

Hire Purchase. The instalments should be divided into two parts: rent and purchase money. The former may be charged as a trade expense, but not the latter. A special arrangement has been made with regard to the hire purchase of wagons. Inquiry should be made of the local Inspector of Taxes.

Improvements to Premises or Fixtures. These are capital matters, and may not be set against profits for income tax purposes.

Realization of Investments. Unless it is part of the ordinary trade operations to vary investments, a profit on such realization is not assessable, nor may a loss be charged as a trade expense.

Advertising. Normal advertising expenditure is allowable for income tax purposes, but not an abnormal outlay incurred with a view to some special extension of trade.

Excess Profits Duty and Corporation Profits Tax. These are allowable deductions for income tax purposes. (See Chapter XXI.)

CHAPTER VIII

SCHEDULE D (CONTINUED)—THE AVERAGING OF ADJUSTED PROFITS—EXAMPLES—NORMAL ASSESSMENT IN THE EARLY YEARS OF A BUSINESS—WHEN THE AVERAGE MAY BE DROPPED

It was stated in Chapter V that the law does not allow any person to pay tax on the amount he may, for his own purposes, elect to consider as profit. Such profit usually requires adjusting as has been shown. It is necessary now to state that even that adjusted profit does not constitute the amount of the assessment, but merely enables a "statutory income" to be ascertained on which tax may be calculated. It must be emphasized that (with a few exceptions which will be referred to later) no man pays tax on his actual profits, even as adjusted. The reason will now be explained.

Assessments are made in respect of each fiscal year running from 6th April to the succeeding 5th April. Now returns for that fiscal year are due in the intermediate May or June, and it is obvious that the actual income of the year cannot be declared at that time. The Income Tax Acts say, therefore, that the taxpayer shall assume that in that fiscal year his profits will reach a certain sum. This sum is usually arrived at by averaging the adjusted profits of the three preceding years, the result constituting the taxpayer's "statutory income." It should clearly be understood, however—

(1) That tax is payable on this statutory income, irrespective of what the actual profit may ultimately prove to be, and

(2) That, although the statutory income is based on the adjusted profits of previous years, it has no other connection with those years; the assessment covers the trader's liability in respect of the profits of the current fiscal year, whatever they may be.

After this explanation that profits are only averaged in order that the statutory income of a later year may be ascertained, the rules under which such averaging is performed may be stated in necessary detail.

First, it is the *adjusted* profits which must be averaged. The rules of adjustment have been stated in the preceding chapters.

Secondly, the profits concerned are those of the three years preceding the fiscal year for which the statutory income is being calculated. The last of these three years must end either on the 5th April preceding such fiscal year or on the day prior thereto on which the accounts of the concern are usually made up.

Thus, if a trader's accounts are usually closed on 31st December, his statutory income for the fiscal year 1924-25 (running from 6th April, 1924, to 5th April, 1925) will be his average adjusted profits over the three years ended 31st December, 1923. If his accounts are usually made up to 30th April, his statutory income for the fiscal year 1924-25 will be his average adjusted profits over the three years ended 30th April, 1923 ; his profits to 30th April, 1924, will not come in, although they may have been ascertained before his return for 1924-25 is made.

Thirdly, the average continues notwithstanding any change in the proprietorship.

These are the general rules, but exceptions will be indicated below.

Example.

A B is served with a form in May, 1924, requiring a return of his profits for the fiscal year ending 5th April, 1925. He has usually closed his books to 28th February, and the balance of his Profit and Loss Account each year has been as follows : years ended 28th February, 1922, 1923, and 1924, £317, £411, £321. After adjustment for income tax purposes these figures have become £381, £433, and £395. His statutory income for 1924-25 is—

$$\frac{£381 + 433 + 395}{3} = \frac{1,209}{3} = £403$$

and this should be the amount of his return and assessment. If his actual profit proves to be larger than this the Revenue cannot ask for an increase in the assessment, neither can

A B usually obtain a reduction should his 1924-25 profit fall short of this amount. He will pay tax at the rate in force for 1924-25. Should he make, say, £600 in the period from March, 1925, to April, 1925, and then cease business, the assessment of £403 covers his full and final liability. (See Chapter IX for exceptions in the taxpayer's favour.)

Early Years.

When a concern has not been going for three complete years the average system still applies, with some necessary modifications. Here, again, it is required to find the statutory income for the fiscal years concerned. The rules are as follows—

(a) *For the fiscal year in which the business is set up.* "As the case may require and the Commissioners direct"; usually such a business is assessed on the actual profits of the period, or a proportionate part of the profits shown in the first year's accounts after adjustment;

(b) *For the first complete fiscal year.* "On an average from the first setting up of the business"; usually assessed on the profits shown in the first year's accounts after adjustment;

(c) *For the second complete fiscal year.* The same basis as (b);

(d) *For the third complete fiscal year.* Assessable on the average adjusted profits of the two preceding years;

(e) *For the fourth and subsequent fiscal years.* Assessable on the average adjusted profits of the three preceding years.

Thus, if C D opens a new business on 1st January, 1920, and makes profits (after adjustment) as follows—

1921—£300	1923—£500
1922—£400	1924—£600

his assessments will be—

(a) 1920-21 (part year, i.e. 1/1/21 to 5/4/21) = $\frac{1}{4}$ of £300 . . . £75

(b) 1921-22 (6 April, 1921, to 5 April, 1922) 300

(c) 1922-23 (" 1922, " 1923) 300

(d) 1923-24 (" 1923, " 1924) = $\frac{£300 + 400}{2}$ = 350

(e) 1924-25 (" 1924, " 1925) = $\frac{£300 + 400 + 500}{3}$ = 400

It will be seen that the rules for periods (a), (b) and (c) are somewhat indefinite, and any obvious injustice would doubtless be redressed.

Exceptions.

As suggested, the average system may sometimes be departed from. It will suffice in this chapter to indicate the circumstances in which the taxpayer has such an option (the Revenue has no such title), and to leave detailed consideration for the two subsequent chapters. Adjustment may be made by reference to actual profits or losses—

- (1) In the early years of a business.
- (2) In the closing years of a business.
- (3) Where the total operations of a business have resulted in a loss.
- (4) Where a change in proprietorship is followed by or entails a specific cause of loss of profits.

CHAPTER IX

SCHEDULE D (CONTINUED)—DROPPING THE AVERAGE SYSTEM —THE EARLY YEARS OF TRADING—THE EXPIRING YEARS OF A BUSINESS

This chapter contains an explanation of the substitution of actual profits for average profits in the first two of the exceptional circumstances referred to in the closing paragraph of the previous chapter.

The Early Years of Trading.

The taxpayer has the right to pay tax on his actual trade profits in any of the following fiscal years—

- (a) The fiscal year in which the business was set up ;
- (b) Any of the next three fiscal years.

The option, therefore, extends to four fiscal years, but it need be exercised only in such of them as suits the taxpayer to claim his right. The following illustrations will show the normal assessments (based on the rules contained in Chapter VIII) and also the adjustments permissible.

Example 1.

A business was set up on 1st October, 1920, and its trading resulted as follows—

	Year to 30th September.	1921.	1922.	1923.	1924.
	<i>Profit</i>	£800	£900	£600	£700
	<i>Normal Assessments.</i>				<i>Adjustment permissible to actual profits.</i>
1920-21	$\frac{£800}{2}$	=	£400		£400
1921-22	1st complete year's profits	£800		$\frac{1}{2} \times £800 + \frac{1}{2} \times £900 =$	£850
1922-23	do.	£800	£800	$\frac{1}{2} \times £900 + \frac{1}{2} \times £600 =$	£750
1923-24	$\frac{£800 + £900}{2}$	=	£850	$\frac{1}{2} \times £600 + \frac{1}{2} \times £700 =$	£650
1924-25	$\frac{£800 + £900 + £600}{3}$	=	£766	Right has expired	

Obviously the adjustment will be claimed for 1922-23 and 1923-24 only. The adjustments have been arrived at by "splitting" accounts. Thus, the actual profit for 1921-22 is taken as half the profit from October, 1920, to September, 1921, and half the profit from October, 1921, to September, 1922. The fiscal year 1921-22 runs, of course, from 6th April, 1921, to 5th April, 1922.

Example 2.

A business was set up on 1st October, 1920, and its trading resulted as follows—

<i>Year to 30th September.</i>		1921.	1922.	1923.	1924.
<i>Profit or Loss . . .</i>		<i>P. £800</i>	<i>L. £1,000</i>	<i>P. £200</i>	<i>P. £400</i>
<i>Normal Assessments.</i>		<i>Adjustment permissible to actual profits.</i>			
1920-21	$\frac{£800}{2}$	=	£400	—	£400
1921-22	1st complete year's profits	£800		$\frac{1}{2} \times £800 + \frac{1}{2} \times -£1,000$	
				= - £100	Nil
1922-23	do.	£800		$\frac{1}{2} \times -£1,000 + \frac{1}{2} \times £200$	
				= - £400	Nil
1923-24	$\frac{£800 - £1,000}{2}$	=	Nil	No assessment to adjust	
1924-25	$\frac{£800 - £1,000 + £20}{3}$		Nil	No right to adjustment	

This example illustrates the rule that a minus result to an averaging operation is regarded as a *nil* result. No repayment is entertained as against this income, neither is the average loss carried forward. The only case in which a loss is the subject of repayment is dealt with in Chapter X.

The claim to adjustment must be made within one year after the end of the fiscal year concerned.

The Closing Years of an Expiring Business.

When a business is absolutely closed (and not transferred from one proprietor to another merely) the assessment of the current fiscal year may be amended to the profits of that year, and the taxpayer may claim repayment of any tax paid for

the three preceding years in excess of what would have been paid had he been assessed on the actual profits (ignoring losses) of those years.

EXAMPLE 1. The accounts of a limited company showed the following results—

Years ended 30th September.	1918.	1919.	1920.	1921.	1922.	1923.	1924.
	P.	P.	P.	P.	L.	P.	P.
Profits or Losses	£1,200	£1,000	£1,100	£800	£1,200	£300	£200

The business was closed down on 30th September, 1924.

	Assessments.		Duty.
1921-22	$\frac{£1,200 + 1,000 + 1,100}{3} =$	$£1,100 @ 6s. 0d. =$	$£330 \quad 0 \quad 0$
1922-23	$\frac{£1,000 + 1,100 + 800}{3} =$	$£966 @ 5s. 0d. =$	$£241 \quad 10 \quad 0$
1923-24	$\frac{£1,100 + 800 - 1,200}{3} =$	$£233 @ 4s. 6d. =$	$£52 \quad 8 \quad 6$
	Total	<u>£2,299</u>	<u>£623 18 6</u>
1924-25	$\frac{£800 - 1,200 + 300}{3} = -$	$£33$	Nil
	Actual Profits.		Duty.
1921-22	$\frac{1}{3} \times £800 - \frac{1}{3} \times £1,200 = -$	$£200$	Nil
1922-23	$\frac{1}{3} \times £300 - \frac{1}{3} \times £1,200 = -$	$£450$	Nil
1923-24	$\frac{1}{3} \times £300 + \frac{1}{3} \times £200 =$	$£250 @ 4s. 6d. =$	$£56 \quad 5 \quad 0$
	Total	<u>- £400</u>	<u>£56 5 0</u>
1924-25	$\frac{1}{3} \times £200 =$	$£100 @ 4s. 6d. =$	<u>£22 10 0</u>

Here the company will obviously make no claim for 1924-25, but for the three previous years (for which a claim must be made in the aggregate, but ignoring losses in any year) will claim repayment of £567 13s. 6d. (£623 18s. 6d. minus £56 5s.). It will be seen that, where absolute losses are concerned, the adjustment does not profess to make the aggregate duty correspond with the aggregate profit or loss.

EXAMPLE 2. The accounts for a trader (a married man) showed the following result—

Years ended 30th September.	1918.	1919.	1920.	1921.	1922.	1923.	1924.
Profits	£580	£590	£600	£560	£460	£580	£680

The business was closed down on 30th September, 1924.

	<i>Assessments.</i>	<i>Standard Rate.</i>	<i>Tax due at the appropriate rates after deducting Earned Income Relief and Personal Allowance.</i>
1921-22	$\frac{£580 + 590 + 600}{3} =$	£590 6s. 0d.	£58 1 0
1922-23	$\frac{£590 + 600 + 560}{2} =$	£583 5s. 0d.	£46 17 6
1923-24	$\frac{£600 + 560 + 460}{3} =$	£540 4s. 6d.	£33 8 3
	Total	£1,713	£138 6 9
1924-25	$\frac{£560 + 460 + 580}{3} =$	£533 4s. 6d.	£32 1 3
	<i>Actual Profits.</i>		
1921-22	$\frac{1}{2} \times £560 + \frac{1}{2} \times £460 =$	£510 6s. 0d.	£36 9 0
1922-23	$\frac{1}{2} \times £460 + \frac{1}{2} \times £580 =$	£520 5s. 0d.	£33 12 6
1923-24	$\frac{1}{2} \times £580 + \frac{1}{2} \times £680 =$	£630 4s. 6d.	£51 14 9
	Total	£1,660	£121 16 3
1924-25	$\frac{1}{2} \times £680 =$	£340 4s. 6d.	£9 2 3

This is a straightforward case where a claim can be made for the adjustment both of the year of cessation (1924-25) and of the three preceding years (1921-22 to 1923-24). It is worth noting that had the rates of tax been increasing instead of decreasing the claim might have been of no advantage. Claims may be made within six years of the last fiscal year concerned. Thus, a claim for 1924-25 must be made by the 5th April, 1931. The claim for 1921-22 to 1923-24 must be made by the 5th April, 1930.

CHAPTER X

SCHEDULE D (CONTINUED)—FURTHER EXCEPTIONS TO THE AVERAGE SYSTEM—WHEN A LOSS IS INCURRED—RULES FOR REPAYMENT—EXAMPLES—EFFECT ON FUTURE AVERAGES—WHERE A CHANGE IN PROPRIETORSHIP IS FOLLOWED BY OR ENTAILS A SPECIFIC CAUSE OF LOSS

WHEN the total trading operations of a business in any year result in a loss the proprietor may do one of two things—

(i) He may follow the average system in the usual way, and get the benefit of the loss by bringing it into future averages three times ; or

(ii) He may get the immediate benefit of the loss by setting it against any tax due from him ; if he does this the loss will not come into future averages.

It should be noted that sometimes the final result is the same whichever plan is adopted, but more usually the particular circumstances of the case make one or other decidedly advantageous. Thus, the general effect of (ii) is to get relief *now* at the expense of future years, and this is bad policy if the *rate* of tax is going up. On the other hand, when the rate is decreasing, (ii) is advantageous, as is also the case where losses are so large or so persistent as to make future assessments very small in any event. These points will be illustrated in the examples which follow. Many traders, however, are simply moved with the feeling that they need relief at the present moment, whatever may happen in the future. It would pay them to see at exactly what cost they are obtaining the relief.

The claims under discussion should be made to the Inspector of Taxes within one year after the end of the year of assessment to which they relate. No particular form is needed, and the first thing will be to forward an account showing to his satisfaction that there has been a loss. It is not the practice to "split" accounts in this connection. If a loss has been made in the trader's financial year ending in the fiscal year

concerned this will usually be sufficient. Thus, if a trader closes his books on 30th November annually, and his account to November, 1924, shows a loss, that will suffice for the fiscal year 1924-25.

The total operations of the concern must show a loss. This does not affect a single trader much, but a company or a firm must naturally include its taxed income in the account. (N.B. A firm does not claim as such, but partners may claim individually.) Thus—

A F AND CO. PROFIT AND LOSS ACCOUNT

To Expenses . . .	£1,100	By Gross Profit per Trading Account . . .	£ 800
„ Balance, profit . .	100	„ Rents and taxed dividends . . .	400
	<u>£1,200</u>		<u>£1,200</u>

In this case no claim would lie, although, for purposes of an assessment on profits under Schedule D, a loss of £300 would come into the average.

B G AND CO. PROFIT AND LOSS ACCOUNT, 1923

To Expenses . . .	£1,100	By Gross Profit per Trading Account . . .	£ 800
		„ Taxed Dividends . .	200
		„ Balance: loss . . .	100
	<u>£1,100</u>		<u>£1,100</u>

In this case the loss for purposes of the claim is £100.

For purposes of an assessment on profits, a loss of £300 would come into the average, this being the loss excluding the taxed dividends. If tax is repaid on £100, in future averages this year's trading is treated as resulting in a loss of £200 (£300-£100). Thus—

<i>Actual profits.</i>	<i>Average for 1924-25.</i>
1921, profit £200	£200
1922, „ £400	400
1923, loss £300 (£100 repaid on)	- 200
	<u>3)400</u>

Assessment for 1924-25 £133

After a loss has been admitted by the Inspector, the taxpayer will require to complete a form showing his income from all sources in the *fiscal* year concerned, and to attach vouchers proving that he has suffered tax on each source. As a rule, he will be required to include all dividends which have *accrued* to date within the fiscal year, and to exclude all others. If he has paid tax on an assessment on his trade profits for that fiscal year (which will have happened if his previous accounts show an average profit) he must include the amount of the assessment as income.

If the aggregate income, as proved, comes up to the amount of the loss, repayment will be made of tax on the full loss. If the loss exceeds the aggregate income, repayment will be restricted to the amount of tax paid on such income. Whenever tax is not repaid on the full amount of loss which would ordinarily come into future averages, the *balance* of such loss may come into the averages as usual. Thus—

<i>Actual profits</i> —1920	£ 700
1921	800
1922	600
1923	Loss £800

As the aggregate income for 1923–24 is assumed to be as follows—

Assessment on profits	(£700 + 800 + 600)	£ 700
	3	
Dividends		50
		<u>£750</u>

tax will be repaid for 1923–24 on £750, and the average for 1924–25 will be—

$$\frac{£800 + 600}{3} - 50 = £450$$

We come now to the general examples showing the calculation and effect of a repayment claim on the ground of loss. It will be assumed that tax is repaid on the full loss in each

case, the adjustment necessary in future years where this is not so having been fully explained above.

EXAMPLE 1. Result of trading—

	1918 Profit .	£600	
	1919 " .	500	
	1920 " .	700	
	1921 Loss .	400	
	1922 Profit .	200	
	1923 " .	400	
	<i>Ordinary Assessments.</i>	<i>Assessments if a Claim is made in 1921-22.</i>	
1921-22	$\frac{£600 + 500 + 700}{2} = £600$	£600 less tax on £400 repaid = £200	
1922-23	$\frac{£500 + 700 - 400}{3} = £267$	£500 + 700 - Nil = £400	
1923-24	$\frac{£700 - 400 + 200}{3} = £166$	£700 - Nil + 200 = £300	
1924-25	$\frac{£-400 + 200 + 400}{2} = £67$	£Nil + 200 + 400 = £200	
	Total £1,100	Total £1,100	

This shows the normal working of the claim. An immediate advantage is obtained in 1921-22, but it is paid for in the three succeeding years. The aggregate assessments in the four years are the same. Inasmuch, however, as tax in the latter years is at a lower rate than in 1921-22 a claim would prove to have been well advised.

EXAMPLE 2. Result of trading—

1918 Profit .	£600
1919 " .	100
1920 " .	100
1921 Loss .	900
1922 " .	700
1923 Profit .	200

<i>Ordinary Assessments.</i>		<i>Assessments if a Claim is made in 1921-22.</i>	
1921-22	$\frac{£600 + 100 + 100}{3} = £266$	£266 repaid	Nil
1922-23	$\frac{100 + 100 - 900}{3} = \text{Nil}$	$\frac{100 + 100 - \text{Nil}}{3} =$	66
1923-24	$\frac{£100 - 900 - 700}{3} = \text{Nil}$	$\frac{£100 - \text{Nil} - 700}{3} =$	Nil
1924-25	$\frac{£-900 - 700 + 200}{3} = \text{Nil}$	$\frac{£\text{Nil} - 700 + 200}{3} =$	Nil
	Paid on £266	Paid on £66	
		<i>Less tax repaid in 1921-22 against other income (balance of £900 after deducting £266 repaid against the 1921-22 assessment).</i>	
			634

Result of claim—tax repaid on £568

This is a very common case. The business is doing so badly that even if tax is reclaimed for 1921-22 future assessments will be negligible. A claim should accordingly be made.

Double Claims.

Reference must be made to circumstances in which losses occur in the early or closing years of a business. A claim will lie on the ground of loss and also on the grounds explained in the previous chapter. In the following examples it will be necessary to consider the situation year by year.

EXAMPLE 3. Business is set up 6th April, 1919. (The date 6th April has been taken so that the example may be made as clear as possible. If the business were set up at some date other than at the beginning of the fiscal year the accounts might require to be "split" in the consideration of the claims explained in Chapter IX. See that chapter.)

1920-21	Profit	£1,500	£3,400 profit
1921-22	Loss	£400	
1922-23	Profit	£500	
1923-24		£800	
1924-25		£1,000	

The normal assessment in 1920-21 is £1,500, and this cannot be altered. The normal assessment in 1921-22 is £1,500 again. But the proprietor will claim to have this reduced to the actual profits (i.e. discharged altogether), on the ground that it is his second year (Chapter IX). If he has paid tax on another source of income (e.g. dividends, rents, etc.), he may now claim repayment of tax on the amount of the loss by setting that loss (£400) against that income in the manner described in this chapter. It may be assumed, therefore, that he has been repaid tax on £400 for 1921-22. In 1922-23 the normal assessment is $\frac{£1,500 - £400}{2} = £550$, but in view of the repayment this must become $\frac{£1,500 - \text{Nil}}{2} = £750$. The pro-

prietor may now claim that this is his third year, and that the £750 should be reduced to the actual profits of the year, i.e. £500. In the end the matter will stand as follows—

	Normal Assessments.		Amended Assessments.
1920-21	£1,500	£1,500	£1,500
1921-22	£1,500	£1,500	Nil and duty repaid on £400
1922-23	$\frac{£1,500 - 400}{2} = £550$	£550	£500 as explained above
1923-24	$\frac{£1,500 - 400 + 500}{3} = £533$	£533	£666 $\frac{ (£1,500 - \text{Nil} + 500) }{3}$
1924-25	$\frac{£ - 400 + 500 + 800}{3} = £300$	£300	£433 $\frac{ (\text{Nil} + £500 + 800) }{3}$
	£4,383	£3,099	less £400 repaid = £2,699

It will be seen that the aggregate profit in the five years was £3,400; but, of course, the average system often works the other way after the first few years' trading.

EXAMPLE 4. Trading has resulted as follows—

1917-18	Profit	.	.	.	.	£780
1918-19	"	.	.	.	.	560
1919-20	"	.	.	.	.	670
1920-21	"	.	.	.	.	420
1921-22	Loss	.	.	.	.	200
1922-23	Profit	.	.	.	.	100

From April, 1923, to October, 1923 (when business ceases), the profit was £30.

(a) Normal Assessments.		(b) Assessments if a claim was made on the ground of loss in 1921-22.	
1920-21	$\frac{£780 + 560 + 670}{3} = £670$	—	£670
1921-22	$\frac{£560 + 670 + 420}{3} = £550$	$£550 - £200 =$	$£350$
1922-23	$\frac{£670 + 420 - 200}{3} = £297$	$£670 + 420 - \text{Nil} =$	$£363$
1923-24	$£420 - 200 + 100 = £106$	$£420 - \text{Nil} + £100 =$	$£173$
Total	£1,623		£1,556

If the business had continued to 1924-25 the aggregate assessments would become the same in each case. The business having ceased, however, a further claim will be made. First, the 1923-24 assessment will be reduced to the actual profits, £30. Next, the aggregate assessments for 1920-21, 1921-22, and 1922-23 ($£670 + £350 + £363 = £1,383$) will be amended by repayment to the aggregate profits (ignoring losses) of those years ($£420 + \text{Nil} + £100 = £520$). Allowances and deductions have been ignored, but they may be deducted from each of the results shown above. In this example the "loss" claim was made first, being limited to a period of twelve months after 1921-22.

Loss Caused by Change in Proprietorship.

Income tax assessments are made on the average profits of the concern assessed, and in the ordinary course they are

unaffected by a change in proprietorship. Thus, taking the history of a business as follows—

1920	Proprietor A makes	£600	profit		
1921	"	"	"	£400	"
1922	"	"	"	£250	" in 1st 6 months
	"	B	"	£300	" " 2nd "
1923	"	"	"	£700	"

the assessment for 1923-24 will be $\frac{£600 + 400 + 550}{3} = £517,$

and that for 1924-25 will be $\frac{£400 + 550 + 700}{3} = £550.$

If, however, a "specific cause of loss" operates with or after the advent of B, he may pay tax on the actual profit of the year concerned. Thus—

1920	Proprietor A makes	£600	profit		
1921	"	"	"	£400	"
1922	"	"	"	£250	" in 1st 6 months
	"	B	"	£50	" " 2nd "
1923	"	"	"	£120	"

If B proves that his profits fell short because of the loss of A's personal influence, the assessment for 1923-24 may be reduced to £120. (For 1921-22 B would pay half the tax assessed on A, but in the circumstances stated his half might be reduced to £50.)

Other "specific causes of loss" would be B's shortness of capital as compared with A, B's having to compete with A's former manager who has just set up a rival concern near, B's closing a shop on Sundays contrary to A's practice, etc., etc.

The changes in proprietorship which a "specific cause of loss" must follow would include the death or withdrawal of a partner in a firm, the admission of a new partner into the firm, the death or bankruptcy of the proprietor of a business, etc.

The claim must be made within one year of the end of the fiscal year concerned. No relief will be given to a person who continues to carry on the business during the year of assessment without a change in partnership or in ownership.

CHAPTER XI

SCHEDULE D (CONCLUDED)—THE ASSESSMENT OF PARTNERSHIPS—GENERAL RULES—EXAMPLES—WHERE THE FIRM HAS UNEARNED INCOME AND PAYS INTEREST—WHERE THE CURRENT YEAR'S BASIS OF THE DIVISION OF PROFITS IS NOT KNOWN
—WHERE A NEW PARTNER ENTERS

It is a principle of the Income Tax Acts that tax is levied primarily upon the concern making profits, and only secondarily upon the individuals connected therewith. Thus, an assessment will not, as a rule, be affected by changes in proprietorship or by a portion of the profits becoming payable to outsiders by way of interest on loans made to the proprietors. The new owners take up their predecessors' liability from the date of succession, and the lenders bear their share of the gross assessment on the concern by suffering the deduction of tax from the interest received. Following on this principle, a partnership is assessed in one sum on the average aggregate profit, and the division of liability between the partners is regarded as immaterial except when some or all of them have occasion to make separate returns for the purposes of claims to allowances made to individuals only. In this case it is necessary to distinguish such partners' respective shares of the aggregate profit assessed, and this is liable to present some difficulty.

Rules.

The rules may be stated briefly as follows—

(a) Ascertain the average total profits of the concern over the past three years.

(b) From the sum so arrived at (which will be the amount of the assessment), deduct all annual payments, annuities, interest on fixed loans, etc., which the firm is liable to pay, out of profits included in the assessment, during the year for which the assessment is to be made.

(See Example 1, in which part of the payments are made out of taxable sources not included in the Schedule D assessment.)

(c) As the balance represents the share of the assessment remaining for the partners, the following question must now be answered: "If we actually were to have this surplus profit in the current year, how would we divide it amongst ourselves?" A proper answer to this question will provide the basis for claims to relief, and allowances, by one or more of the partners.

The succeeding examples will illustrate these rules.

EXAMPLE 1. The accounts of Messrs. E, F, G, and H have been adjusted for income tax purposes as follows—

	1921.	1922.	1923.
Profit per accounts	£1,870	£1,656	£1,783
Add sums charged in the accounts but not allowed for Income Tax purposes—			
Interest on Capital, partner E	113	118	121
" " " F	84	85	88
" " " G	65	63	69
" " " H	48	48	51
Salaries to partner E	300	300	300
" " F	300	300	300
" " G	300	300	300
" " H	300	300	300
Interest on fixed loan	170	160	150
Annuity	300	300	300
Total	3,850	3,630	3,762
Deduct sums already taxed. Property £300, dividends (net, say) £28	328	328	328
Total profit as adjusted	£3,522	£3,302	£3,434
Average for 1924-25		£3,419	

It may be taken that E becomes a sleeping partner half-way through the year 1924-25, after which he receives no salary. F, G, & H draw salaries in addition to interest on their capitals. The circumstances of the three years on which the account is based are as shown. The basis of division in 1924 is as follows—

	Salary.	Interest on Capital.	Share of Balance.	
			1st half.	2nd half.
E	£150	£90	1/4	1/4
F	£300	£90	1/4	1/4
G	£300	£71	1/4	1/4
H	£300	£52	1/4	1/4

Before anything goes to the partners, however, an annuity of £300 must be paid, also £140 interest on fixed loan. The firm owns its trade premises (assessed £360 gross and £300 net), and receives a dividend which would have amounted to £30 had not tax been deducted therefrom.

It has been shown that the firm must be assessed on £3,419 for 1924-25. Under rule (b) it must be ascertained what charges are payable out of the 1924-25 profits. This is necessary, because assuming, as must be assumed, that the firm's profits will be £3,419 in 1924-25, the partners can only receive this amount less the amount of the charges referred to. Of the £3,419, therefore, the charges must be regarded as going to "outside partners" of the concern, and when these are paid, tax at the highest rate will be deducted therefrom and must be handed over to the Revenue.

What charges, then, are payable out of the assessable profits? At first sight one might say £440 (£300 plus £140). But the firm may well point out that they have certain income already charged at the highest rate, i.e. £300 from property and £30 from dividends. Why not say that, of the £440, £330 has been paid out of such taxed income, and that only £110 of the profits must necessarily be charged at the highest rate? This is certainly permissible.

We have, therefore, £3,309 (£3,419 - £110) for division between the partners according to the current year's basis as follows—

		1st half-year.	2nd half-year.
E—Salary	.	£150	
Interest on Capital	.	45	£45
		<hr/>	<hr/>
Total	.	£195	£45
		<hr/>	<hr/>
			£240
F—Salary	.	£300	
Interest on Capital	.	90	
Total	.	<hr/>	390
		<hr/>	
G—Salary	.	300	
Interest on Capital	.	71	
Total	.	<hr/>	371
		<hr/>	
H—Salary	.	300	
Interest on Capital	.	52	
Total	.	<hr/>	352
		<hr/>	<hr/>
			£1,353

The balance for division is £1,956 (£3,309 - £1,353).

E, $\frac{1}{4}$ of £978 =	£245	$\frac{1}{4}$ of £978 =	£138	Total	£383	
F, " "	244	$\frac{3}{4}$ " "	280	"	524	£1,956
G, " "	245	" "	280	"	525	
H, " "	244	" "	280	"	524	

The amount of the assessment is therefore divisible for partnership purposes as follows—

<i>Charges</i>		£110	
E, 1st half-year :	£195 + £245 =	440	£3,419
2nd " "	45 + 138 =	183	
F, " "	390 + 524 =	914	
G, " "	371 + 525 =	896	
H, " "	352 + 524 =	876	

E's share is shown in two portions because the first half-year's portion is regarded as earned income, while that of the latter half-year is unearned.

It may be assumed that all partners have completed the usual individual return, forms, and claims to relief (*see* Chapters II and III), and that their respective taxable incomes are calculated as follows—

	E	F	G	H
	£	£	£	£
Total Income (all from firm)	623	914	896	876
Less—				
Earned In- come Relief £44	91 8	89 12	87 12	
Personal Allowance £135	225 0	225 0	135 0	
Children's Allowance . —	36 0	90 0	—	
Total Deduc- tions . .	179	352 8	404 12	222 12
Taxable In- come . .	£444	£561 12	£491 8	£653 8

It may be further assumed that E pays £48 life assurance premiums, F pays £90, and H £25.

The assessment on the firm for 1924-25 will be arrived at as follows—

	£	s.	d.
Total taxable income of the firm = £444 + £561 12s.			
+ £491 8s. + £653 8s. =	2,150	8	0
To be charged @ 2s. 3d. (£225 for each partner)	900	0	0
To be charged @ 4s. 6d.	1,250	8	0
Total tax payable	382	11	10
Less life assurance allowance @ 2s. 3d. on £163 (£48 + £90 + £25)	18	6	9
NET TAX DUE FROM THE FIRM	£364	5	1

EXAMPLE 2. J, K, and L are partners in a firm whose assessment for 1924-25 is arrived at as follows—

	1921.	1922.	1923.
Profit per accounts	£860	£840	£854
Add sums charged in the accounts but not allowed for Income Tax purposes.			
Interest on Capital, partner J	15	15	17
" " " K	18	17	18
" " " L	9	10	12
Salary to partner J	200	200	200
" " K	200	200	200
" " L	200	200	200
Interest on fixed loans	80	80	80
Total profit as adjusted	£1,582	£1,562	£1,581
Average	£1,575		

The charges payable out of such profits for 1924-25 are £80, and £1,495 is therefore left for division between the partners. The basis of such division is as follows—

- J 5 per cent. interest on average capital during 1924-25 ;
- $\frac{1}{3}$ profits of Market I, $\frac{1}{3}$ general balance.
- K as J, but substitute Market II for Market I.
- L as K, but substitute Market III for Market II.

At the time returns are required, the partners know neither

what their average capitals will be, nor what proportion of the profits will arise in each of the various markets.

Circumstances such as these are met with very frequently. The Income Tax Acts, however, do not offer any way out of the difficulty. All that can be done is to agree on a fair basis with the Inspector of Taxes. Either the basis of division in the preceding year or the basis according to the facts of the three past years will probably be admitted. Thus, the figures given above may be found to have been divided as follows—

	1921.	1922.	1923.	Total.	Suggestion for 1924-25.	
Charges .	£80	£80	£80	£240	(actual)	£80
J . . .	500	475	501	1,476	$\frac{1}{3} \times £1,476 =$	492
K . . .	480	505	472	1,457	$\frac{1}{3} \times$	1,457 = 486
L . . .	522	502	528	1,552	$\frac{1}{3} \times$	1,552 = 517
						£1,575

The amount of charges to be inserted in the 1924-25 column must necessarily be the amount *payable in that year*. If this does not happen to be the same as in the three preceding years, a more complicated calculation must be made, but on the same principle. Thus, assume the figures to have been as follows—

	1921.	1922.	1923.	Total.	Suggestion for 1924-25.	
Charges . .	£80	£70	£60	£210	(actual)	£50
J	500	475	501	1,476		500
K	480	505	482	1,467		497
L	522	512	528	1,562		528
						£1,575

The amounts set against J, K, and L respectively in the last column will be found to be proportionate to the sums set against their names in the column headed *Total*.

EXAMPLE 3. M and N are partners in a firm, and admit a new partner O (who brings no business with him) as from

6th October, 1924. The assessment for 1924-25 is arrived at as follows—

	1921.	1922.	1923.
Profit per accounts of M and N .	£604	£608	£582
Add sums charged in the accounts but not allowed for Income Tax purposes.			
Interest on Capital, partner M .	12	13	14
" " " N .	10	10	12
Salary to partner M .	150	150	150
" " N .	150	150	150
Total profit as adjusted .	£926	£931	£908
Average for assessment, 1924-25	£921		

There are no charges, but the profits are divisible in the following proportions in 1924-25—

1st half-year—

M, interest on Capital £7, Salary £75, plus $\frac{1}{2}$ balance
 N, " " 6, " 75, " "

2nd half-year—

M, interest on Capital £7, Salary £100, plus $\frac{1}{2}$ balance
 N, " " 6, " 100, " "
 O, " " 4, " 60, " "

The assessment of £921, although based on the average profits of M and N only, is divisible between M, N, and O as follows—

M, interest on Capital £14, plus Salary £175=	£189
N, " " 12, " " 175=	187
O, " " 4, " " 60=	64
	<hr/> £440

leaving £481 for division proportionately—

M, $\frac{1}{2}$ of £240 plus $\frac{1}{2}$ of £241 =	£200
N, " " " " =	200
O, $\frac{1}{2}$ of £241 " " =	81
	<hr/> 481
	<hr/> £921

The division is, therefore—

M	.	.	.	.	.	£189 + 200 =	£389
N	.	.	.	.	.	187 + 200 =	387
O	.	.	.	.	.	64 + 81 =	145
							<hr/>
							£921
							<hr/>

The assessment so arrived at will hold good, even if the entrance of O considerably increases the profit.

CHAPTER XII

SCHEDULE E — EMPLOYEES — BONUSES, GRATUITIES, AND COMMISSIONS—EXPENSES—SALARIES PAID “FREE OF TAX”—RETURNS OF EMPLOYEES—WEEKLY WAGE-EARNERS—QUARTERLY ASSESSMENTS—ALLOWANCES AND DEDUCTIONS

LIABILITY under Schedule E extends to all salaries, fees, wages, pensions, perquisites or profits which arise by reason of office or employment. Wound, disablement or disability pensions granted on account of military, etc., service ; and allowances in respect of children granted by the Ministry of Pensions to widows of members of the naval, military or air forces are exempt. Assessment is legally based on the remuneration for the year of assessment, but as at the time of making a return the taxpayer often does not know what his salary for the ensuing year will be, a return of the previous year's income is always accepted by the Revenue. Should the actual income for the year prove to be less than the assessment by reason of reduced salary or cessation of employment, the taxpayer can get the assessment amended, or else obtain repayment of the excess tax paid. Should the amount returned prove to be less than the actual amount received, the Revenue usually make an additional assessment to cover.

✓ **Bonuses, Gratuities, and Commissions.**

In addition to salary, all other profits *arising by reason of the employment* such as bonuses, gratuities, and commissions are assessable to tax under Schedule E, the amount earned in the year preceding the year of assessment being taken as a basis. The three years average system which operated previous to 1922-23 is no longer extended to such profits. Voluntary payments made to employees by employers are not assessable if they are made for reasons not connected in any way with employment. An example will be given of

a payment on the border line of liability, but which is considered not to be liable. If an employee has grave domestic misfortune, as, for example, the serious illness of his wife, and the employer gives him, say, a ten-pound note, solely out of sympathy, it would appear that the £10 need not be returned by the employee. (On the other hand, the gift cannot be regarded as a trade expense and is not deductible in the employer's account.)

Expenses.

An employee is allowed to deduct from his remuneration any sums "necessarily and exclusively" expended by him in the performance of his duties.

TRAVELLING EXPENSES. These are allowable, except the cost of travelling to and from the employee's place of business.

HOTEL EXPENSES, ETC. These are allowable to a commercial traveller and other employees similarly engaged, but such expenses must be reduced by what it would cost the employee to live at home.

GUARANTEE PREMIUMS. These are allowable.

PROFESSIONAL FEES. Fees paid by an employee—accountant for example—to his professional society or body, are usually allowed.

SUPERANNUATION CONTRIBUTIONS. These are allowable if "really and *bona fide* paid and borne by the party to be charged." Naturally no further relief will be given under this head in respect of payments for which the life assurance is made.

Salaries Paid "Free of Tax."

Employers frequently pay tax on their employees' remuneration. In this event, the assessable remuneration is an amount which, when decreased by the amount of tax thereon, will leave the sum actually paid to the employee. This would necessitate a rather difficult computation. In practice,

therefore, it is usual for the preceding year's tax to be added to the current year's remuneration. Thus—

1923.	Salary to employee	.	.	.	.	£400
"	Tax paid by employer	.	.	.	.	30
1924.	Salary to employee	.	.	.	.	420
	Assessment	£420	+	30	=	£450

In the case of a new employment, etc., or in other circumstances presenting special difficulties, an exact computation must be made. Thus—

1923-24. Salary £400. Company pays tax.

The question is, what amount reduced by tax thereon will leave £400? In the case of an unmarried man there would be earned income relief £40 and the personal allowance £135, leaving £225 chargeable (for 1923-24) at 2s. 3d. We may therefore say—

$$(\text{£}400 + \text{tax}) - (\text{£}225 + \text{tax}) (2\text{s. } 3\text{d.}) = \text{£}400.$$

This is a matter of algebra, and is given here more as a warning to adopt the preceding year's basis whenever possible, than for use either by the employer or the employee. If necessary this method of computation must be adopted.

Returns of Employees.

All employers (whether individuals or bodies) are required to make an annual return of employees on the prescribed form No. 46. On this form particulars have to be given of all employees except: (1) persons who are not employed in any other employment, and whose remuneration for the year does not exceed £150; and (2) weekly wage-earners employed by way of manual labour (for whom a separate return is required as stated later in this chapter). A specimen return for 1924-25 is given on page 59.

Quarterly Assessments on Weekly Wage-earners.

WEEKLY WAGE-EARNERS. For purposes of the Acts, this term includes wage-earners employed by way of manual

A B C TRADING CO., LTD.

Name of Person Employed (including Directors, Auditors, etc.).	Description of Office.	Residence.	Amount of Salaries & Wages for Year Ending 5/4/25.	Other Payments (Fees, Bonuses or Commissions) made for the Year ending 5/4/24.		If Income Tax and/or Super-tax has also been paid by Employer, state "Yes."	Amount of Employee's Super-annuation Contribution.
				Description.	Amount.		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A. Smith . .	Director	Swansgrove, Basingstoke	£200	Travelling Expenses	£50	—	Nil
Messrs. Jones & Brown	Auditors	500 Mincing Lane, E.C.3	£52 10s.	Nil	Nil	—	Nil
P. White . .	Secretary	2 Laurel Road, S.W.20	£400	Nil	Nil	Yes (Income Tax)	Nil
R. Black . .	Clerk	60 Acacia Street, N.21	£180	Nil	Nil	—	£5
J. Davis . .	Traveller	28 Council St., Leeds	£100	Commission	£264 10s.	—	Nil
L. Stone . .	Typist	101 The Grove, Peckham	£160	—	—	—	£3

DECLARATION. I, *Paul White (Secretary)*, declare that all the particulars required this notice are fully and truly stated to the best of my knowledge and belief.

Date *14/4/25* Signature *[Signature]*

labour. The following classification of doubtful cases is made by the Inland Revenue.

MANUAL OCCUPATIONS. Assistant foremen, tram and omnibus drivers and conductors, chauffeurs, chefs, cinema operators, dental mechanics, firemen, huntsmen, liftmen, porters, ships' mates (unless superintending only), tailors' cutters and tie cutters (unless supervising others), warehousemen, working dressmakers, working farm bailiffs, and working foremen.

NON-MANUAL OCCUPATIONS. Clerks, typists, draftsmen, shop managers, shop walkers, window dressers, check weighers, van travellers (where supplying orders from van stock), ticket collectors, theatre attendants, musicians in cinemas and theatres, and foremen acting as supervisors only.

To be included in the term, also, a person must receive wages which are either *calculated* by reference to a period less than a month (i.e. by the hour, day, week, or other period), or which (however calculated) are *paid* daily, weekly, or at any less intervals than a month.

If any question arises as to the application of the term to any person, it is required to be determined (without right of further appeal) jointly by the Board of Inland Revenue and the district Commissioners of Income Tax.

PROVISIONS AS TO QUARTERLY ASSESSMENTS. Returns are required to be made by employees quarterly as fixed by regulations made by the Board of Inland Revenue. The inspector may also require a return respecting any particular employee at any time. The proposal originally included in the 1915 Bill for the collection of tax by the *employer* in certain cases was dropped. Any arrears of tax may be obtained by distraint, by process as for a debt due to the Crown, or may be recovered summarily as a civil debt. The assessment may be made by the Inspector of Taxes instead of by the local Commissioners, but appeals may be heard by the latter body where the inspector and the wage-earner continue to disagree.

PLACE OF ASSESSMENT. The assessments may be made

at the place of employment or, alternatively, at the residence of the employee.

Weekly wage earners concerned are required to make a return for the first quarter of the year (quarter ended 5th July) and in any other quarter as regards which the inspector has particular reason for desiring a return. In the latter category are those cases in which employees are entitled to a quarterly allowance for expenses.

From each quarter's earnings one quarter of the full year's allowances due (see below) is deducted. Where wages vary, it is possible for tax to be due for one quarter while for another quarter in the year the allowances exceed the wages. An adjustment is made in these cases in each quarter so that in the aggregate the full allowances due for the portion of the year expired are made. *Thus—*

1st quarter :	Wages	£47 :	Allowances	£38
2nd "	"	"	"	38
		34 :		

For the first quarter the assessment would be on £9. For the second quarter, tax on £4 is repayable, unless such tax is set off against the tax due for subsequent quarters.

Allowances and Deductions.

Earned Income Relief. Deduction of one-tenth of the earned part of the income.

Marriage Allowance. Deduction of £225 (£56 5s. per quarter). Where the wife has earned income, this allowance may be increased by nine-tenths of the wife's earned income up to £50 thereof. The maximum marriage allowance is, therefore, £270 (£225 + £45) or £67 10s. per quarter.

Personal Allowance. Deduction of £135 (£33 15s. per quarter) in the case of an unmarried individual (bachelor, spinster, widow, or widower).

Children. Deduction of £36 for one child and £27 for every other. (Allowance can be claimed for children over 16, if they are receiving full-time educational instruction.) The quarterly allowance for three eligible children would be £22 10s.

Dependent Relatives. Deduction of £60 (£15 per quarter) in the case of a relative taking charge of the younger brothers or sisters of an unmarried individual or acting as housekeeper to a widow or widower; or a deduction of £25 (£6 5s. per quarter) in the case of an infirm or aged relative supported by the taxpayer.

Expenses. Payments on account of tools, explosives, and similar expenses are allowed if incurred exclusively for the purposes of the employment.

Life Assurance. As for purposes of other income tax assessments (Chapter III). Under this heading come payments to friendly societies and trade unions for *death or superannuation* benefits. For all incomes not exceeding £1,000, the deduction (which is made from the actual tax otherwise due) is calculated at the rate of 2s. 3d. in the £ on the allowable premiums.

NOTE. Fuller particulars of the above allowances are given in Chapters II and III.

CHAPTER XIII

THE DEDUCTION OF TAX FROM PAYMENTS MADE BY TAXPAYERS —RULES UNDER WHICH DEDUCTION IS MADE—RATES OF DEDUCTION—PARTNERSHIPS—PAYMENTS NOT MADE OUT OF TAXED INCOME

By far the greater portion of the income duties is borne by the ultimate recipients of the income concerned *by way of deduction*. That is to say, such income is received *less tax* from some person who has paid that tax to the Revenue. From this follow two rules, clear in principle but very liable to be confused in application.

1. *If A is entitled to deduct tax from a payment due to B, he must pay to the Revenue tax on that amount as well as whatever tax may be due on his own account.*

2. *At whatever rate A is liable to be charged personally, he must pay tax on the amount due to B, at the rate at which he is required to deduct tax from that amount.*

In illustration of the first rule, the following examples may be given.

(1a) A is a trader whose profits have been—

1921	Profit	£800	after	charging	£70	interest	on	loan
1922	"	900	"	"	60	"	"	"
1923	"	700	"	"	50	"	"	"

Average	£800	Average	£60	"	"
	<u> </u>		<u> </u>		

His assessment for 1924–25 must be on £860. As a matter of fact, this will be the amount of the assessment whatever interest is paid in 1924. The assumption is that he gets his allowance from the person entitled to the interest, and may not, therefore, obtain a further allowance from the Revenue by deducting the interest from his gross profit.

(1b) A owns a house, and in 1924–25 his tenant deducts £6 15s. from the yearly rent of £40 (being tax at 4s. 6d. on $\frac{3}{4}$ of £40). One-fourth has been allowed for repairs, but A also pays

£8 ground rent (or mortgage interest) out of the rent. He will get no allowance from the assessment in respect of this payment, but may deduct tax therefrom, paying £6 4s. instead of £8. He will then have borne tax on £22 only (£40 less £10 repairs, and less £8 ground rent).

(1c) A is a trader who is totally exempt by reason of his assessable income not exceeding £135 per annum. He pays £8 interest, however, and is entitled to deduct tax therefrom. He must, accordingly, pay to the Revenue tax on £8.

In considering the second rule, it must be remembered that whenever there is a title to deduct tax it is always at the highest rate of tax in force. Thus—

(2a) A (the trader referred to in Example 1a) is a married man with one child. He pays £40 interest in 1924-25. It has been stated that whatever happens in that year as regards the payment of interest, his assessment must be £860. A will, therefore, be charged at the full rate on £40, and from the remaining £820 he will be allowed earned income relief £82, marriage allowance £225, and allowance for child £36, leaving a taxable income of £477, £225 of which will be charged at 2s. 3d. and £252 at 4s. 6d.

If A pays £100 interest, he will be charged at 4s. 6d. on £100 and will be allowed the statutory deductions from the remaining £760.

(2b) A (the house-owner referred to in Example 1b) has other unearned income amounting to £300.

His total assessment will be £330 less charge £8 = £322. Deducting the personal abatement, A is charged at the remaining taxable income (£187) at 2s. 3d. and on £8 at 4s. 6d.

(2c) A (the trader referred to in Example 1c) must for 1924-25 pay to the Revenue £1 16s., being tax on £8 at 4s. 6d.

Should the person entitled to receive any of the above-mentioned payments be exempt from tax, or be chargeable at the lower rate, he should make the necessary claim to repayment. It has not been found possible, as a matter of administration, to authorise deductions to be at any rate other than the highest in force.

A third rule must now be considered.

3. *So long as A has suffered tax at the highest rate on any portion of his income, it may be assumed that his payment to B is made in the first instance out of that income. He will still receive no allowance from the Revenue in consideration of such payment, but he may be regarded as having already paid over all or part of the "highest rate tax" he has deducted from B.*

(3a) A (the trader referred to in Examples 1a and 2a) receives £60 dividends, from which tax is deducted at the highest rate. If he pays £40 interest in 1924-25 (even though such interest is a trade charge and is not connected with the dividends) his assessment will be £860, less the usual reliefs and allowances.

If he pays £100 interest, the charge will be—

£40 at 4s. 6d. (being £100 less £60 covered by dividends)	}	£860
£820 at the rates shown in Example 2a on page 64		

Should it happen, however, that A has a loan against the investments and pays, say, £10 interest thereon, then only £50 of the dividends may be allocated to the trade interest. If the trade interest is no more than £50, the assessment will be £860 less the reliefs and allowances due. But if it is, say, £100, the charge will be—

£50 at 4s. 6d. (£100 less £50)	}	£860
£810 at the rates applicable after the necessary allowances have been made		

(3b) A (the house-owner referred to in Examples 2b and 2c) receives £60 dividends, from which tax is deducted at the highest rate. As he may claim relief in respect of these dividends, the house will continue to be charged as stated in Example 2b; but the excess tax deducted from the dividends may be allowed against the assessment on the property.

Partnerships.

The rules and examples given above apply in all respects to the case of a firm. All that need be done is to substitute "A & Co." for "A." Thus, Example 3a would apply to a firm which is in the receipt of dividends. But the following

question often arises. Should the only dividends in any way connected with the concern belong to a particular partner and not to the firm, may the firm's interest be regarded as being paid out of such dividends? The answer is in the negative, inasmuch as a firm is a separate entity under the Income Tax Acts.

On the other hand, should the firm have taxed dividends which have not been allocated to the firm's interest, a partner's share in this "highest-rate" taxed income may be allocated to that partner's personal interest. Thus—

A & Co.'s assessment for 1924-25 is £860, as in Example 1*a*. The firm has no taxed dividends and will pay £40 interest in 1924-25. Partner A pays £10 interest on a personal loan and has no other income. (The remaining partner C may be taken to share the profits equally with A and to have no other income.) The assessment on the firm will be—

Gross	£860	
£50 (firm £40 : A £10) at 4s. 6d.		
A	£400	$\left(\frac{£860 - 40}{2} - 10 \right)$ less earned income relief £40 and abatement £135 = £225, to be charged at 2s. 3d.
C	£410	less earned income relief £41 and abatement £135 = £234, of which £225 is charged at 2s. 3d. and the remaining £9 at 4s. 6d.

But should the firm be in receipt of £70 taxed dividends and pay £40 interest, while partner A pays £50 personal interest, the charge will be—

Gross	£860	
£20 (as explained below) at 4s. 6d.		
A	£410	less earned income relief £41 and abatement £135 = £234, of which £225 is charged at 2s. 3d. and the remaining £9 at 4s. 6d.
C	£430	less earned income relief £43 and abatement £135 = £252, of which £225 is charged at 2s. 3d. and the remaining £27 at 4s. 6d.

Part of A's interest has been regarded as payable out of his share of the dividends which have not been allocated to cover the firm's interest; i.e.—

Firm's interest, £40; covered by £40 dividend.

A's interest, £50 ; of which £30 is covered by the £30 unallocated firm's dividends.

Payments Not Made Out of Taxed Incomes.

A brief note must be made regarding the rules in the special circumstances so described. It may be supposed that A pays £10 interest to B, from which he is entitled to deduct tax, but that A makes the payment out of capital, having, say, no taxable income in the year concerned. In all the examples given above and in the succeeding chapter, the payments have been made out of trade profits, or rents, dividends, etc., and the payer has, therefore, retained the tax deducted to make up for having borne tax in full on the income from which the payments were made. In the case now described, however, a new rule applies. A must deduct tax at the rate in force at the date of payment (irrespective of the period during which the interest accrued), and must make a specific payment to the Revenue of the amount deducted.

It may easily happen, therefore, that one person is entitled to receive from another an annual payment of interest due on, say, 10th April. So long as the payer has taxed income to cover, the rate of deduction will be practically that of the fiscal year preceding. But should the payer cease to have taxable profit to cover, the rate of deduction from the interest must change to that in force in the current year.

CHAPTER XIV

THE DEDUCTION OF TAX (CONCLUDED)—PAYMENTS FROM WHICH TAX MAY BE DEDUCTED—WHERE THE RATE CHANGES—GENERAL RULES RESPECTING INTEREST—WAR LOAN INTEREST

To make possible a proper understanding of the rules under which one taxpayer deducts tax from payments he is liable to make to another, it is necessary to explain the nature of the payments which are concerned. Also, although it has been shown that the rate of deduction is always the highest in force, it remains to discuss those circumstances in which the rates of tax have varied during the periods within which the payments in question have accrued or fall due.

Generally speaking, the right to deduct tax may be regarded as extending to rents, ground rents, dividends, annuities, interest on fixed loans, and annual payments of a similar nature. There are many difficult questions involved in this matter which need not be discussed here ; for practical purposes the list given will be found sufficient. As regards the last item, an illuminating case may be referred to. A company was formed in this country to acquire, from a foreign concern, the British rights in a boot polish. Under the agreement a percentage of the gross British sales was payable to the foreign vendors. It was decided that, although this payment varied from year to year, it was of such a nature that tax should be deducted therefrom by the payers and be accounted for to the Revenue by them.

Also, as regards the "interest on fixed loans," the legal term is "annual interest," but this does not refer merely to interest paid once a year. The word "annual" is held to point to a certain fixity about the loan, thus excluding interest on a bank overdraft, for example.

Changing Rates.

The fiscal year runs from 6th April to the succeeding 5th April inclusive, and were all interest to accrue to and be paid on the last of these dates no difficulty could arise. But if, for example, interest on £400 at 5 per cent is payable by half-yearly instalments on 30th June and 31st December, the first payment will cover indebtedness accruing half in one fiscal year and half in another. If the rate of tax has not been constant in those years, the general rule will be to deduct tax at the proportion of rates in force over the period during which the interest has accrued. Thus, from the £10 due on 30th June, 1923, the tax deducted will be—

Quarter to 31/3/23, tax at 5s. 0d. on £5=	£	s.	d.
Quarter to 30/6/23, tax at 4s. 6d. on £5=	1	5	0
	5	1	2
	2	7	6

making, for the six months, tax at 4s. 9d. on £10.

Similarly, if a yearly interest of £20 were due on 30th June, 1923, the deduction would be—

3 quarters to 31/3/23, tax at 5s. 0d. on £15=	£	s.	d.
1 quarter to 30/6/23, tax at 4s. 6d. on £5=	3	15	0
	1	2	6
	£4	17	6

making £20 at a proportional rate of 4s. 10½d.

It will be observed that the interval between 31st March (or even 25th March) and 5th April is ignored wherever interest is calculated to the usual commercial quarter days.

Before the Finance Act Passes.

An old Act authorizes the usual preparations for assessments to be made in that early portion of the fiscal year prior to the passage of the annual Finance Act re-imposing the income tax. But in 1912 it was decided that no right to charge or to deduct tax existed until that Act had passed through all its stages and received the royal assent. A *Provisional Collection of*

Taxes Act was, therefore, passed in 1913 to regulate the matter under discussion in the period referred to. The present procedure is as follows—

(1) From 6th April to the date of a resolution of the House of Commons re-imposing the tax (such date being required to be no later than 5th May) the duty must be assumed to be the same as in the previous year.

Thus, a half-yearly payment of interest accruing to and paid on 1st May, 1923 (assuming the resolution not to have been passed by that date), should suffer deduction of tax entirely at the 1922–23 rate of 5s. 0d. ; e.g. interest £12 at 5s. 0d. equals £3. As will be seen, the last one-sixth of the deduction is subject to revision when the rate for 1923–24 is fixed.

(2) From the date of a resolution of the House of Commons re-imposing the tax, the rate must be taken to be as stated in that resolution. The resolution must be confirmed or amended by the passage of the Finance Act within four months thereof.

Thus, a half-yearly payment of interest accruing to 1st June, 1923, must suffer deduction, two-thirds at 5s. 0d. (December, 1922, to March, 1923), and one-third at 4s. 6d. (April and May, 1923) ; e.g. of £12 interest—

$$\left. \begin{array}{l} £8 \text{ at } 5\text{s. } 0\text{d.} = £2 \text{ } 0\text{s. } 0\text{d.} \\ £4 \text{ at } 4\text{s. } 6\text{d.} = \quad 18\text{s. } 0\text{d.} \end{array} \right\} £2 \text{ } 18\text{s. } 0\text{d.}$$

Interest (General Rules).

A general note with regard to interest may be of service. Interest has always been regarded as a distinct subject of taxation irrespective of losses and profits. It has been shown that, where there is any fixity about the loan, the interest reaches the recipient *less tax*. It is immaterial that he may have traded at a loss in that year. If that is the case he may treat the interest as taxed income against which a claim may be made as explained in Chapter X ; but this is an exceptional allowance by special enactment, and does not necessarily meet the case—see the example of A, F & Co. in that chapter, also Example 2.

In accordance with the same principle, interest received in full should be the subject of a direct assessment on the recipient. Wherever interest is assessed as such, it is under Case III of Schedule D, which requires an assessment on the amount arising in the year preceding the year of assessment, unless the interest first arose subsequently to the 6th April in that preceding year, in which case assessment is made on the actual income for the year. E.g. for 1924-25, assessment would normally be made on the income for 1923-24. If, however, the interest first arose after 6th April, 1923, computation will be made on the actual income for 1924-25. The classes of income returnable for assessment under Case III include all untaxed interest, annuities, dividends or discounts received or credited, including interest on bank deposit accounts and discount on Treasury Bills. Deposit interest from co-operative societies is assessable, but not dividends on purchases.

There are some cases, however, in which interest may be regarded as being merely one of the items which make up the gross receipts of the business concerned. Thus, it would be out of the question to make a money-lender pay tax on all the interest he received, without any allowance for bad debts and general expenses. Such receipts are not the proceeds of interest-bearing investments. They are the gross returns of trading operations.

As regards interest *paid*, it has been explained that when the loan is fixed tax is deductible therefrom. When interest is not payable out of taxed income (see the closing paragraphs of Chapter XIII) tax is deductible therefrom whether the loan is fixed or not. The only interest from which tax may not be deducted, therefore, is "short-loan" interest which is paid out of taxable profits.

When interest is paid in full to a banker out of the payer's taxed income, the payer may be repaid an equivalent amount of tax. Thus, if to buy a house assessed at £36 net a person borrowed money from his banker and paid £18 interest in any particular year, he may claim the allowance or repayment

of tax on £18. Tax allowed or repayable will be at the same rate as that at which tax has been charged on the house.

War Loan Interest, etc.

For purposes of taxation, War securities may be divided into four classes—

(a) those bearing interest from which tax is deducted before receipt;

(b) those bearing interest paid in full and which should be returned for taxation by the recipient;

(c) those bearing interest tax on which is assumed to have been compounded for;

(d) that bearing interest which is not regarded as income for income tax purposes.

In the following list, certain pre-war securities* have been included for the sake of completeness—

(a) Consols ; $2\frac{1}{2}$ per cent and $2\frac{3}{4}$ per cent Annuities ; Local Loans 3 per cent Stock ; $2\frac{3}{4}$ per cent and 3 per cent Guaranteed Stocks ; $3\frac{1}{2}$ per cent War Stock ; $4\frac{1}{2}$ per cent War Stock ; 4 per cent Victory Bonds ; 4 per cent Funding Loan (1960–90) ; $5\frac{1}{2}$ per cent Exchequer Bonds. Exceptions : Dividends paid through the Post Office Savings Bank ; dividends not exceeding £5 per annum, however paid, other than dividends on all securities in bearer form.

(b) 5 per cent War Stock, and 5 per cent Exchequer Bonds, 1919, 1920, 1921, and 1922 ; 6 per cent Exchequer Bonds, 1920 ; 5 per cent National War Bonds, 1922, 1924, and 1927 ; 5 per cent National War Bonds, 1923, 1925, and 1928. Exception : Securities in bearer form.

(c) Tax Compounded Stock and Bonds as follows : 4 per cent War Stock ; 4 per cent National War Bonds, 1927 ; 4 per cent National War Bonds, 1920 ; 4 per cent National War Bonds, 1928.

(d) War Savings Certificates.

Tax is deducted from class (a) at the full rate ; and part or all is frequently recoverable, as explained in Chapter XVIII.

Interest under class (b) (and under the exceptions to class (a)) is returnable as income for the fiscal year succeeding that in which it is received. Nothing is returnable in the first year in which Government War Security interest is received. Where interest arose for the first time in the year preceding the year of assessment, a return must be made of the full amount which will arise during the year of assessment.

Interest under class (c) must be included in any statement of total income as taxed already. The said interest is deemed to be a net amount received after tax has been deducted from a gross amount at 4s. 6d. in the £ (i.e. it represents a net 15s. 6d. out of a gross 20s. income). The income returnable is the interest multiplied by 40/31. Nevertheless, the 4s. 6d. in the £ assumed to have been paid is in no circumstances repayable. ~

CHAPTER XV

DOMINION AND FOREIGN INCOME—BASIS OF ASSESSMENT— DOMINION INCOME TAX RELIEF—RESIDENCE

CIRCUMSTANCES have combined in recent years to increase the importance of the law relating to the taxation of income which arises abroad. Prior to the war, owing to the fact that the income arising abroad was not assessable unless it was brought to this country, there became evident a growing practice of allowing such income to remain abroad for investment with the direct object of escaping British income tax. Then in 1914-15 came an alteration in the law, rendering it immaterial whether foreign income of the main classes was left abroad or received in this country. Third, owing to the increased taxes imposed in the British dominions, the question of the double taxation of the dominion profits accruing to residents in the United Kingdom became so acute that in 1920-21 measures were introduced with a view to easing this double burden.

What is " Dominion and Foreign Income " ?

For the purpose of taxation the word " dominion " means any British possession, or any territory under the protection of His Majesty or under British or dominion mandate. It should be noted that as from 1922-23 the Irish Free State is to be regarded as a dominion and not a part of the United Kingdom. Northern Ireland, of course, remains subject to British laws of taxation. Foreign income is income which arises outside Great Britain, Northern Ireland and the dominions. It is only necessary here to indicate items which the term does not include. A person residing in Aberdeen owned a business in Canada, which was conducted by his representative there. But he received periodical statements regarding the course of trade, and would have interfered if

he thought fit. The business was held to be "carried on" by himself in this country, and his income therefrom was not income, but income arising in Aberdeen. (He was not a *sleeping* partner.) Similarly, companies whose trading operations take place entirely abroad, but whose seat of management is here, have been held to be British companies and their profits to arise in this country.

A dividend arising, therefore, from the Imperial Continental Gas Association or the London Bank of Mexico is not foreign income. The point is often a material one in determining liability to income tax, and in case of doubt, inquiry should be made of the officer from whom the dividend is received. It is practically certain, however, that income customarily received direct from abroad is foreign or dominion income within the meaning of the Tax Acts. It may be remarked that the fact that income has borne foreign or dominion taxation does not exempt it from further assessment in the United Kingdom, though certain reliefs are due as stated below.

Basis of Assessment.

The rules for assessment may be tabulated as follows—

SOURCE OF INCOME	RULES
Dominion or Foreign Securities.	Assessable on the amount arising in the year of assessment, whether it is received in the country or not.
.. .. Stocks.	Assessable on the average amount arising in the last three years whether it was received in this country or not.
.. .. Shares.	Do. do.
.. .. Rents.	Do. do.
Other income arising abroad.	Assessable on the average amount received in this country in the last three years.

N.B. Dominion or foreign income is not assessable unless remitted to this country, where the owner is not domiciled

in the United Kingdom, or (being a British subject) is not ordinarily resident here.

The term *security* may require comment. A debenture and a mortgage are securities, being secured on some description of asset. A dividend (even a preferential dividend) does not arise from a security, but from a share in the undertaking concerned. Within the term would fall municipal and other bonds, Government stock, and a loan secured on a business. Foreign and dominion *securities* are assessed under Case IV of Schedule D, and foreign and dominion *possessions* under Case V.

Expenses necessarily incurred in the collection of the income abroad are allowable, e.g. foreign taxes, an agent's charges for the collection of rent, any annual interest or payment paid out of the income to a person not resident in the United Kingdom, etc. It should be noted that no deduction is allowed in respect of *dominion* income tax unless under the laws of the dominion no provision is made for the allowance of relief from dominion income tax in respect of United Kingdom income tax. (For dominion income tax relief, see p. 77.)

Income from dominion and foreign securities cannot be assessed in excess of the amount arising in the year of assessment. Income from stocks, shares, and dividends, although assessable on past average, will not continue to be assessed after the whole profits due to any one person have *permanently* ceased. When, however, a part only of a person's holding ceases to yield, the assessment on average will remain. Thus—

(a) *Dividends from Foreign Company*

	1921.	1922.	1923.	1924.		1924.
Company X	100	100	100	100	} or {	Nil
" Y	100	120	80	Sold		Nil
" Z	100	90	80	30		Nil
	300	310	260	130		Stock not sold.
Assessment for 1924-25 (average)	290					

(b) Dividends from Foreign Company

	1921.	1922.	1923.	1924.
Company S . . .	100	100	100	Nil
„ T . . .	100	90	80	Nil
	<u>200</u>	<u>190</u>	<u>180</u>	<u>Stock</u>
Assessment for 1924-25 . . .				<u>sold</u> Nil

Dominion Income Tax Relief.

In the case of income which is chargeable both to United Kingdom income tax and to dominion income tax, relief is given from the former at a rate determined as follows—

(a) If the dominion rate does not exceed half the appropriate British rate, the relief given is the dominion rate.

(b) In any other case, the relief is one-half the appropriate British rate.

The “appropriate rate” referred to is ascertained in the case of income tax by dividing the tax payable before any life assurance relief is allowed by the taxable income of the person concerned. Where super-tax is payable, the “appropriate rate” is the sum of the appropriate income tax rate calculated as above, and the super-tax rate (ascertained by dividing the super-tax payable by the total income for super-tax purposes).

EXAMPLE 1—

Income in question	£300
United Kingdom Tax at the appropriate rate of	3s. 8d. in £
Dominion Income Tax borne on same income at the rate of	1s. 6d. in £
Relief due—£300 @ 1s. 6d. in £	£22 10s.
(Because the Dominion rate is less than half the United Kingdom rate.)	

EXAMPLE 2—

Income in question	£450
Appropriate rate of United Kingdom Tax	4s. in £
Rate of Dominion Tax borne on the same income	2s. 6d. in £
Relief due—£450 @ 2s. in £	£45
(I.e. half the British rate, as the Dominion rate exceeds this.)	

Residence.

In connection with the assessment of profits accruing in this country to individuals and concerns usually described as foreign, many complicated questions arise. The general law of liability, however, is as follows—

(1) RESIDENTS IN THE UNITED KINGDOM are chargeable on all income arising in this country and all such profits accruing from abroad as come within the scope of the rules given on page 75.

(2) NON-RESIDENTS are chargeable on all profits accruing in this country (except discount on Treasury Bills issued on or before 31st August, 1922; interest on 5 per cent War Stock, 5 per cent and 6 per cent Exchequer Bonds, and 5 per cent National War Bonds; and Post Office issues of 4 per cent Funding Loan, 4 per cent Victory Bonds, and 5½ per cent Exchequer Bonds); but are not chargeable in respect of profits accruing abroad.

(3) FOREIGN VISITORS to this country are regarded as residents, except in the following circumstances: (a) if the visitor is in this country for a temporary purpose only; (b) if he is not in this country with a view to establishing a residence; (c) if he does not reside here, in the aggregate, for six months during the financial year. These three conditions are *concurrent* and not alternative, and exemption is only given in respect of foreign income remitted to this country. Income arising here is assessable as stated under (2) above.

The following examples will show the operation of the Acts—

(1) An actor, resident in the United Kingdom, occasionally tours abroad. He is assessable on his earnings here, on any income from foreign property, and on so much of the foreign earnings as are remitted to this country.

(2) A foreign singer not resident here occasionally appears in England. He is assessable on his earnings here, but not on any remittances he receives from abroad, provided he does not live here for more than six months in any financial year.

(3) X and Y are sleeping partners in a foreign firm, X being resident in this country and Y non-resident. X will be assessable on such of the profits as are received here and Y exempt.

(4) A company resident in this country trades extensively abroad. It is assessable on the whole of its profits, whether arising here or abroad.

(5) A company with offices in England, but with the seat of management and control abroad, trades in foreign countries and remits certain profits to this country. It will be assessable only on the profits brought here. The onus of course will be on the company to prove that the seat of management and control is actually abroad, and it is certain that the Revenue will scrutinize the facts very critically.

CHAPTER XVI

ASSESSMENT ON PROPERTY—THREE TAXES—SCHEDULE A—REPAIRS—SCHEDULE B—TENANT'S LIABILITY—CHANGES IN OCCUPATION — LOST RENT — OWNER-OCCUPIERS — EXEMPT TENANTS AND LANDLORDS—LANDLORD'S GROUND RENT AND MORTGAGE INTEREST—BUILDING SOCIETY INTEREST—LAND TAX

THIS chapter has reference chiefly to assessments based on a reputed "annual value" instead of on profits. Practically every property in the British Isles is considered in relation to the following question—"What is it worth to be let by the year if the landlord is to execute repairs and the tenant to bear the usual tenant's burdens?" When once an answer is obtained to this question the assessment is settled. Certain deductions may be allowed which may prove more or less than the expenditure they are supposed to cover. The owner's actual net profit is immaterial.

The first charge imposed in respect of any property is income tax under Schedule A, commonly known as property tax. This is designed to cover the landlord's income from the house. The second charge is under Schedule B and rests upon lands. It has relation to the profit which *might* be made by the occupier of the lands (by farming or otherwise). The third charge is land tax, an old tax originally unconnected with the income taxes. A brief account is given at the end of this chapter.

Schedule A (Property Tax).

As stated, this tax is charged on the annual value of the property concerned, less certain deductions. The ordinary house has a deduction for repairs only, but in country districts the assessments on farms are likely to be reduced by the amounts of land tax and tithe which are paid. The alternative

arrangements regarding tithe are not within the scope of this book, and the reader should make special inquiry if he has need.

To ascertain *annual value* the obvious question is—"What is the rent?" Next one asks—"Does the landlord bear any of the usual tenant's burdens, or *vice versa*?" If the tenant executes all or part repairs, his probable payments under this head must be added to his rent to obtain the annual value. Similarly the amount of tenant's rates payable by the landlord must come off the rent. Specimen gross assessments may be set out as follows—

(1) Rent £40, repairs by landlord, rates by tenant.—*Annual Value*, £40.

(2) Rent £60, repairs by landlord, rates by landlord.—*Annual Value* equals £60 less the annual amount of rates (e.g. local rates, including water, 6s. in the £ on a net poor rate assessment of £50 = £15. £60 minus £15 gives a fair gross annual value of £45). This example has reference to all cases where what is termed "inclusive rentals" are paid (i.e. where the rent includes the tenant's liability in respect of rates).

(3) Rent £40, repairs by tenant, rates by tenant.—*Annual Value* equals £40 plus probable expenditure on repairs. In such a case the latter is reckoned at about 10 per cent of the rent but there is no statutory obligation for this. The gross assessment will in all probability be £40 + £4 = £44.

(4) Rent £140, inside repairs by tenant, outside repairs by landlord, rates by tenant. *Annual Value* is probably £140 + £7 (5 per cent of rent), unless the facts suggest that £7 is too small.

Where the tenant is called upon to execute all repairs, "fair wear and tear excepted," it may be taken that the landlord executes repairs, the tenant only making good casual damages or executing repairs not necessary strictly speaking. Where the tenant executes repairs except as regards "structural matters" it may be taken that the landlord is relieved of the repairs contemplated by the Income Tax Acts.

Repairs to Property.

As from 1923-24 the following allowances are made from house property assessments in respect of repairs—

	<i>Allowance.</i>
Where the assessment does not exceed £40 .	One-fourth
„ „ „ exceeds £40 but not £100 .	One-fifth
„ „ „ „ £100 .	£20, together with one-sixth of the excess over £100

In the case of lands the allowance is a flat rate of one-eighth. A further allowance may also be claimed in respect of the cost of repairs, insurance, maintenance and management ; provided such cost, on the average of the past five years, has exceeded the amount of the statutory allowance. The further allowance is the amount of the excess. Both in the case of houses and lands it is provided that the statutory allowance shall be restricted to the amount required to reduce the assessment to the rent if the tenant repairs, as is shown in numbers (3) and (5) of the specimen allowances which follow. The first four of the following examples are based on those given above, and they are numbered accordingly.

(1) Rent £40. *Gross Assessment, £40 ; allowance for Repairs, £40* $\times \frac{1}{4}$ = £10 ; *net Assessment, £30.*

(2) Rent £60. *Gross Assessment, £45 ; allowance for Repairs, £45* $\times \frac{1}{5}$ = £9 ; *net Assessment, £36.*

(3) Rent £40. *Gross Assessment, £44 ; allowance for Repairs, £4 ; net Assessment, £40.* (Here the landlord suffers tax on his full rent, because he has no repairs to pay for out of it.)

(4) Rent £140. *Gross Assessment, £149 ; allowance for Repairs, £20 plus one-sixth of £49 (excess of assessment over £100) = £28 ; net Assessment, £121.* (As the landlord does some repairs, the repairs allowance is not restricted.)

(5) Rent £70, repairs by tenant, rates by tenant.—*Annual Value* presumed to have been fixed at £70. (This occasionally happens where the property has been the subject of a fresh lease during the quinquennial period in which gross assessments

are not revised.) *Gross Assessment*, £70; *allowance for Repairs*, Nil; *net Assessment*, £70.

It should be understood that tax is calculated on the net assessment. Thus, when tax is at 4s. 6d. the duty chargeable in Example 1 is £30 at 4s. 6d. = £6 15s.

Schedule B (Farmers' Tax).

From 1918–19 to 1922–23 the profits from the occupation of land were deemed to be equivalent to *twice* the rental value, or *equal* to the annual value in the case of land not used for purposes of husbandry, unless the Board of Agriculture declared that the land was not put to its best use.

As from 1923–24 the Schedule B assessment is taken as *equal* to the rental value, lands not used for husbandry being assessed at *one-third* the annual value.

The only comment necessary here is that, where more than an acre of garden is attached to a house, the excess is charged under Schedule B (in addition to Schedule A) at one-third of its supposed annual value. Thus—

House and four acres of gardens. Rent £80. Gross Schedule A assessment £80. It may be assumed that the house is supposed to be worth £60 and the gardens £5 an acre. The Schedule B assessment will be £5 (i.e. one-third of £5 × 3), at the current rate of income tax. The allowance for repairs under Schedule A will be $\frac{1}{3} \times £5$ plus $\frac{1}{3} \times £65$. The assessments may be stated thus—

<i>House</i> —Gross assessment including one acre			
of garden	.	.	£65 0 0
Repairs (one-fifth)	.	.	13 0 0
Net assessment	.	.	<u>£52 0 0</u>
<i>Garden</i> —Gross assessment (3 acres only)			
Repairs (one-eighth)	.	.	£5 0 0
			12 6
Net assessment	.	.	<u>£4 7 6</u>

A *bona fide* farmer, or the occupier of woodlands managed on a commercial basis, may elect to pay tax on his actual

profits according to the rules for trades. All lands occupied as nurseries or gardens for the sale of the produce (except hop gardens) are required to be assessed according to the rules of Schedule D on the average profits.

Tenant's Liability.

The two foregoing charges are due to be paid by the occupier of the property. He must bear the Schedule B himself, but duty charged under Schedule A is deductible from the next payment of rent. If a tenant does not like to be out of pocket for the period between the date he pays his taxes and March quarter day, he should pay the duties on, say, 24th December, and deduct from the quarter's rent then due. There is no legal obligation for a tenant to hand the receipt to his landlord when he makes the deduction, but it is usual and reasonable. The collector will give a receipt for Schedule A separate from that referring to any other duties if requested.

Changes in Occupation.

Income tax under Schedule A (property tax) is payable by the person who is occupying the premises at the time application is made. He may be distrained on for any current tax or arrears, unless the arrears ought previously to have been paid by an occupier who was also the owner. Payment of duty under Schedule A is rarely enforced against anyone except the *present* occupier. If premises are empty the landlord will be asked to pay what is due, failing which the new tenant will be forced to pay as soon as he enters. A tenant is quite safe, therefore, in paying any arrears of such duty applied for, and as a general rule he is not safe in declining to pay.

Duty under Schedule B is a personal debt due from the occupier. If he removes he will be followed, and the Revenue may enforce payment.

No duty is due for a period in which a house is empty and

no rent is payable, except that any Schedule B liability falls, in law, on the landlord.

The following example will illustrate the whole matter : *Rent*, £40 p.a. payable quarterly. *Assessment* (Schedule A), £40 gross, £30 net. A occupies for first quarter. The house is empty the second quarter. B occupies for the last two quarters.

Liability—*Schedule A* for $\frac{3}{4}$ year ($\frac{3}{4} \times £30 @ 4s. 6d. = £5\ 13s.$). This must be paid by B, who is in occupation when application is made. He will deduct this amount from his next payment of rent.

Lost Rent.

On due proof, a landlord is acquitted of any property tax due for a period over which he permanently lost his rent. The tax in question becomes due from the tenant who was "beneficial-occupier," or practically owner-occupier in that period. If the tenant is exempt the duty will be passed.

Owner-occupiers.

An owner-occupier may be called upon to pay and bear all three duties, or such of them as happen to be chargeable. In any statement of his income he should include the net Schedule A assessment on his house, and show (at the foot of the form) what ground rent and interest he pays. Such a man often says—"But I get no income from this house." Obviously he gets just as much income as if he let the house, and paid rent for himself elsewhere. Another contention is that a man does not own a house until he has paid off the money he borrowed to buy it. But his income from the house is clearly the "annual value less repairs" (i.e. the net assessment) less the ground rent and interest payable, and all these will be shown on the statement of income. The amount repaid is "savings," and is not a deduction from income.

When a house is divided into non-structurally separated tenements the landlord is deemed to be the occupier. All

duties are collectible from him, wherever he may be. In default of payment the tenants may be forced to pay, in which case they may deduct the amount paid from their rent.

Tenants and Landlords Entitled to Exemption, Allowances, and Reduced Rate of Tax.

Except as regards Schedule B the size of the *tenant's* income is irrelevant.

Where the owner is exempt or entitled to any allowances the Schedule A tax may be discharged or reduced accordingly. If he does not wish his tenant to know anything of his personal income, the duty may in most cases be paid as usual and repayment claimed, if arrangements are made in good time.

It should be noted that the difference between the full and reduced rate of tax on property is frequently allowed against the landlord's business assessment.

An owner may, if he desires, apply for the tax due on his property to be recovered from him instead of the tenant. The application must be made before 31st July in the year of assessment on a form obtainable from the Inspector of Taxes. Such an application does not affect the right of the Revenue to distrain upon the tenant for arrears.

Landlord's Ground Rent and Mortgage Interest.

It has been explained in Chapter XIII that any person paying such charges should deduct tax therefrom. It follows that no allowances on the ground of exemption, relief, empty properties, etc., should reduce the sums to be borne by the landlord to less than the amount of such ground rent and interest.

Thus, suppose that a house is empty the whole year, but that £8 ground rent and £16 mortgage interest are payable by the landlord. The £24 must continue in charge, otherwise the landlord would be retaining the tax he deducted from the ground-landlord and mortgagee.

On the other hand, if the landlord has another house for

which he is paying tax on £52, say, the ground rent and mortgage interest being £25, *all* his ground rent and interest may be regarded as payable out of the £52 and the empty house may be discharged from assessment.

Building Society Interest.

A taxpayer may be purchasing his house through a building society. He will want to know how his payments are regarded. They are divided, in theory at least, into two parts—repayment of loan and payment of interest on the amount still unpaid. No allowance whatever is made in respect of the repayment of loan, which is simply a way of saving money. As regard the interest, the borrower is rather awkwardly placed, as—

(1) The interest is not the sort from which he may deduct tax ; and

(2) The interest is nevertheless not permitted to be deducted from the assessment before tax is paid.

The position may be thus—

Rent (or rental value)	.	.	.	.	.	£36
Less allowance for repairs	.	.	.	.	.	9
Net assessment	.	.	.	.	.	<u>£27</u>
Paid to Building Society—						
Repayment	.	.	.	.	.	£16
Interest	.	.	.	.	.	7
Real Income	.	.	.	.	.	<u>£23</u>

The owner pays tax on £27, while his income is £23.

There is only one way of remedying this. The society concerned may make an arrangement with the Inspector of Taxes for its own district, under which it will pay tax on the £4. An annual certificate of interest paid will be given to the borrower, and the amount shown thereon will be deducted from the assessment on the property as soon as the taxpayer sends it to his own inspector.

Land Tax.

Land Tax, like the Inhabited House Duty, which was repealed as from 1924, is a charge having no relation to the income tax, but as it is collected with the property taxes and adjustments may sometimes be made according to income tax liability, a brief description is given here.

This tax, dating back to 1690, is imposed on all lands and the buildings thereon at a rate varying according to the parish concerned, each parish having to raise a certain "quota." No parish may be charged at more than 1s. for every £ of its annual value.

Relief and exemption from tax are given in the following cases—

(a) Where a parish has in the past raised excess land tax beyond its "quota," its subsequent quotas are reduced by one-tenth of the excess.

(b) Where the owner pays thirty times the amount of the assessment, the tax is redeemed and future exemption is given.

(c) Where the owner's total income does not exceed £160, total exemption is given for the year.

(d) Where the owner's total income does not exceed £400, one-half of the charge is remitted for the year.

Tax is collected on the 1st January each year, and any adjustment must be claimed before payment, as no repayment can be made.

CHAPTER XVII

REPAIRS—RENEWALS—REPLACEMENTS—ADDITIONS— DEPRECIATION—OBSCOLESCENCE

AN item of considerable moment to a business man is the gradual wearing away of his tools, plant, etc. This matter may be treated in three ways. The loss may be ignored, it may be allowed for by charging as trade expenses all sums expended in making good the loss, or it may be allowed for by a stated annual charge being made against profits, which is calculated in the long run to cover the loss. To ignore the loss is to treat an inevitable trading expense as a loss of capital. The second method is to ignore the losses unless and until they are made good. The third method is that adopted in certain cases by the "wear and tear" clauses of the Income Tax Acts; it is satisfactory supposing that a due allowance is made each year. Six aspects of this subject will now be dealt with under the headings with which this chapter opens.

Repairs.

All *bond fide* repairs may be executed out of revenue. This is obvious in the case of plant, utensils, etc. The treatment of charges for the repair of premises is complicated by the statutory allowances made under Schedule A (property tax), tax being paid under that schedule according to the scales given on page 82. On consideration, however, it will be seen that this does not prevent a trader from charging against profits his lease-rent and also the cost of repairs borne by himself. Thus, if he pays £800 per annum as rent and executes repairs, and if the assessments to property tax are £960 gross and £800 net, tax will have been paid on £800 under Schedule A (which is all the landlord receives) and on actual profits under Schedule D (such profits being obtained

after the trader has paid £800 rent and the cost of repairs). As some confusion of thought exists concerning this matter, five cases will be set out.

(1) A trader pays £960 rent and his landlord executes all necessary repairs. The Schedule A assessment is £960 gross, less £160 for repairs. The trader pays tax on £800 under that schedule and charges it against the landlord. In his revenue account he deducts £960 rent. The Income Tax Commissioners will, therefore, have allowed £960 under Schedule D and received tax on £800 under Schedule A. The difference is the £160 allowed to the landlord to cover repairs. If he spends more, he loses ; if he spends less, he gains.

(2) A trader owns his premises, which are assessed under Schedule A at £960 gross and £800 net. He pays and bears tax on £800 under that schedule, but in his account of profits assessable under Schedule D he deducts £800 and also the cost of repairs actually executed.

(3) A trader rents premises assessed as in the previous examples, and pays £800 rent and executes repairs. As shown above, this case is on all fours with Example 2.

(4) A trader pays £800 rent and executes repairs. The Schedule A assessment is £880 gross and £800 net. (In such a case the allowance for repairs is restricted, so as not to make the net assessment less than the rent. From this point of view the gross assessment is, therefore, immaterial, but as shown in Chapter XVI, £880 is a likely figure here.) Tax is paid on £800 under Schedule A, and the trader is allowed £800 plus the cost of repairs under Schedule D.

(5) A trader takes a 40 years' lease of premises assessed under Schedule A on £960 gross, £800 net. He pays a premium of £3,000 on entering and a chief rent of £700 p.a. He will charge, under Schedule D, the net assessment of £800 and the actual cost to him of repairs.

It may be added that the allowance of repairs does not affect the question of depreciation or renewal, inasmuch as an article depreciates or requires renewal in spite of its having been repaired.

Renewals and Replacements.

These matters should be carefully distinguished from mere repairs, in order to avoid erroneous charges being made either way. In cases of difficulty, no one should be able to judge better than the trader or his expert. Where repairs and renewals are *very* similar, an allowance for depreciation is not likely to be made, and both repairs and renewals will be charged against profits. Thus a system of gas-piping might be "repaired" or "renewed" according to the view of a particular book-keeper, but no one could mistake repairing a gas engine for renewing it (i.e. putting a new one in its place). The wearing away of the former will be met by the actual cost of repairs and renewals being charged as a trade expense; that of the latter by the allowance of an annual sum.

It will be realized that a trader may not charge against revenue both the cost of renewals and replacements and an allowance for depreciation. This would be having the same thing twice.

Renewals and replacements should be distinguished from additions and improvements. The former may be defined as the substitution of a worn article by another of the same initial capital value.

Additions.

The cost of all additions and improvements should be added to the capital value of the plant concerned and not charged as a trade expense.

Where it is the practice to regard renewals and replacements as a revenue charge, so much of an improvement as is a replacement should be so reckoned. Thus, if a motor which cost £350 is replaced by one costing £450, £100 of the latter will be capitalized and £350 charged to revenue. Of course if the old car is sold the proceeds will go against the £350. Where all renewals are capitalized and an allowance is obtained for depreciation, such a transaction may be dealt with as explained below under the heading OBSOLESCENCE.

Depreciation.

It may be explained here that the remark in the first paragraph of this chapter about ignoring the wearing away of assets was very much in point concerning all years prior to 1878. Until then no allowance was made in any shape or form except for the renewals and repairs of *utensils*. But in that year an allowance was authorized in respect of the wear and tear of *plant and machinery*, and this is the subject of the present note. However, all matters outside the scope of the words italicized are still without allowance for depreciation except certain factories (*see* page 95). The exhaustion of a coal mine, the extinction of a lease in the course of years, are examples of losses which the Income Tax Acts regard as immaterial to the assessable profits of the concern.

The conditions governing the allowance of an annual sum to meet the loss incurred by reason of the wear and tear of plant and machinery may be summarized as follows.

(1) The cost of repairs may be regarded as trade expenses, but all expenditure on renewals and replacements must be charged to capital.

(2) The allowance extends to plant and machinery, and the revenue has recently consented to include trade fixtures in this term.

(3) The allowance is intended to cover "physical deterioration." A judge pointed out that a rail which is fit to use now and will be for two years more is as useful, but not of the same value, as a rail which may be used for another twenty years. The difference in value is the deterioration through previous use which the allowance is meant to meet. It follows—

(a) That depreciation in market value through the invention of a better class of machine may *not* be allowed for in this way; also

(b) That the depreciation which the trader feels compelled to provide for in his own books may often be expected to exceed the allowances due for income tax purposes.

(4) The rate per cent at which the allowance shall be made

is not fixed by Act of Parliament. It is in the discretion of the Local Commissioners to allow the sum they consider reasonable—which *need* not be on a percentage basis at all. The rates actually allowed would be expected to vary according to the nature of the plant concerned, and (in the case of a foreign business) to the climate. As a matter of fact, the system of appeal to Local Commissioners (intended to protect the public from any injustice or error on the part of Crown officials) operates to create differing scales of allowances in various parts of the country for the same class of plant. If any taxpayer thinks himself hardly treated in this matter he should prepare such evidence as is possible concerning the "life" of his plant and submit it to the Inspector of Taxes or to the Local Commissioners if necessary. Beyond the decision by the latter as to the rate of allowance, there is no appeal, in the case of *individuals*. Existing allowances vary from 2½ per cent to 15 per cent, or even more in very exceptional cases.

The subject of depreciation received much attention in the Finance Act, 1918.

Application to Referees. In response to the complaint that insufficient allowances for wear and tear were made by the District Commissioners of Income Tax, the Act authorizes application to a Board of Referees by any *class* of trade which is dissatisfied with the existing rate of allowance. The Referees were originally appointed for Excess Profits Duty purposes, and consist of professional and business men. They may now grant any rate of allowance for the depreciation of plant and machinery which they consider just and reasonable. Application should in the first instance be made to the Board of Inland Revenue at Somerset House.

Plant and Machinery Not in Use. Allowance is now authorized to be made in respect of the depreciation of plant and machinery which, owing to the war, is not in use.

(5) There are two systems of calculating the allowance. It may be based on the "prime cost plus additions," or on the "written-down value." The latter system is by far the more common. The former is used in the case of ships where

the rates are 3 per cent (sailing ships) and 4 per cent (steamships). In other cases in which it is adopted the rates are low.

An example of each system follows.

(a) Allowance at 4 per cent on prime cost plus additions—

Prime cost . . .	£10,000		
Allowance, 1st year	£400	Allowance to date, £400	
" 2nd year	£400	" 2nd year	£800
" 3rd year	£400	" 3rd year	£1,200
Additions, 3rd year	1,000		
Value, 4th year	£11,000		
Allowance, 4th year	£440	..	£1,640
Sale, 4th year . . .	2,000		
	£9,000		
Additions, 4th year	3,000		
Value, 5th year . .	12,000		
Allowance, 5th year	£480	..	£2,120
Etc., etc.			

The £2,000 written against " Sale, 4th year " is presumed to be the prime cost of the machine concerned, and not the selling price. The latter may, for purposes of an illustration under OBSOLESCENCE (below), be taken as £400. Record must be kept of the total allowances to date, so that they may not exceed the cost of the machinery concerned.

(b) Allowance at 6 per cent on written-down value—

Prime Cost . . .	£10,000
Allowance, 1st year	600
Value, 2nd year . . .	£9,400
Allowance, 2nd year . . .	564
Value, 3rd year . . .	8,836
Allowance, 3rd year . . .	530
	8,306
Additions, 3rd year . . .	1,000
Value, 4th year . . .	9,306
Allowance, 4th year . . .	£558
Sale, 4th year . . .	1,561
	2,119

	7,187
Additions, 4th year	3,000
Value, 5th year	10,187
Allowance, 5th year	611
Etc.,	Etc.

The £1,561 written against "Sale, 4th year" is the written-down value of a machine presumed to have cost £2,000 four years back (representing one-fifth of the "Prime Cost, £10,000"). The sale price may, for purposes of an illustration under OBSOLESCENCE (below), be taken as £400. It was replaced by a machine costing £3,000.

(6) Where, by reason of smallness or absence of profits, the assessment in any year is not large enough to exhaust the depreciation allowance due to be set against it, the part of the allowance not made may be carried forward, and so on year by year, until the allowance is fully made (see below).

Year of Assessment.	Assessment.	Depreciation allowance due.	Depreciation allowance made.	Total allowa not made to date.
	£	£	£	£
1916-17	4,000	310	310	—
1917-18	300	320	300	20
1918-19	250	315	250	85
1919-20	50	310	50	345
1920-21	Nil	306	Nil	651
1921-22	200	302	200	753
1922-23	900	298	900	151
1923-24	1,300	295	446	—
1924-25	1,500	291	291	—

(Cast for checking purposes) £2,747 £2,747

(7) A claim to this allowance should be made in the space provided on page 3 of the return form No. 1 (or 1A) or No. 11 (or 11A).

Depreciation of Buildings. No direct allowance is made for this; but the trading concern which owns its factories, mills, etc., is allowed to charge as an expense the full annual value of the premises situated in this country. It will have paid tax under Schedule A on a proportion of such annual value only, according to the scale given on page 82. The concern

thus escapes income tax on a part of the annual value, thereby being enabled to provide a sinking fund for the depreciation of buildings, free of income tax. In the case of mills, factories, etc., situated abroad, a deduction of one-sixth of the annual value is allowed.

Obsolescence.

Under a concession made by the Revenue authorities since 1897, now legalized by the Income Tax Act, 1918, an allowance is made when an obsolete machine is sold or scrapped and replaced by another machine. The allowance is for the difference between the selling price (if any) and the portion of the cost price of the old machine not covered by depreciation allowances already made in respect of that machine. The two examples now given follow on those included under (5) of the note on DEPRECIATION preceding this.

(a) Cost of machine . . .	£2,000
Depreciation allowed . .	320 (£2,000 @ 4% for 4 years)

£1,680

Scrap selling price . . . 400

Obsolescence allowance . £1,280

(b) Cost of machine . . .	£2,000
Allowances made . . .	439

Written-down value . . . 1,561

Scrap selling price . . . 400

Obsolescence allowance . 1,161

The allowance is made as follows—

Assessable profits *without* the allowance (assumed to be)–

1921—£8,378
 1922—£9,134
 1923—£8,816

3)26,328

£8,776 assessment for 1924–25

Assessable profits *with* the allowance. (N.B.—The machine is presumed to have been sold and replaced in 1919, the “4th year” of examples (a) and (b) under DEPRECIATION (5).)

(a) 1921	.	.	.	.	£8,378
1922	.	.	.	.	9,134
1923	.	.	.	£8,816	
				Less obsolescence	1,280
					7,536
					3)25,048
					<u>£8,349</u>
(b) 1921	.	.	.	.	£8,378
1922	.	.	.	.	9,134
1923	.	.	.	£8,816	
				Less obsolescence	1,161
					7,655
					3)25,167
				Assessment for 1924-25	<u>£8,389</u>

The effect on subsequent depreciation allowances is shown in examples (a) and (b) referred to.

CHAPTER XVIII

COMPLETION OF RETURNS—FORM 1—FORM 11—FORM 12— EXAMPLES—PAYMENT OF TAX—INSTALMENTS

THE preparation of an income tax return may seem a formal matter of little importance. It happens, however, that a due understanding of what is required in this particular usually goes with an accurate knowledge of the principles on which the actual liability is calculated. In this chapter the forms of return most frequently met with, viz., those for companies, firms, sole traders, professional men and employees, are described, and examples given of the method of completion. Certain taxpayers whose incomes present peculiar income tax difficulties, such as farmers and clergymen, have special forms provided, but these only differ from the forms described below in having special spaces provided for the elaboration of the statement of earned income.

One general remark on the subject of returns may be in place. When once a public notice requiring returns has been issued (as is done in the early months of the fiscal year), the onus of making a return is on the taxpayer. If the assessor fails to serve a form on him it is, in law, his place to obtain one. Where a taxpayer has two or more returns served on him, he should only complete one (preferably that sent to him at his main place of business) and complete the blank form of declaration provided on the other, which states that "a full return has been made elsewhere."

Form No. 1 (or 1 A).

This form is provided for the use of firms, companies, corporations, societies, and other bodies of persons. Form No. 1a is identical with Form No. 1 for all practical purposes, the only difference being that the former is issued by the inspector and the latter by the assessor. Only one need be completed. The following sections require completion.

Section A. A return of untaxed income as required by law from every firm, company, corporation, society, or other body on whom the form is served. This is sub-divided into the following headings—

(1) Income from trade, profession or vocation. (Insert average profits.)

(2) Interest and other annual payments not taxed by deduction at source. (Insert profits of preceding year.)

(3) Dividends from dominion and foreign securities. (Insert amount arising in year of assessment whether receivable in United Kingdom or not. (*See Chapter XV.*))

(4) Dividends from dominion and foreign possessions. (Insert average of three preceding years.)

(5) Profits of any other nature, such as profits of letting furnished house. (Insert usually amount arising in year of assessment, but where income is uncertain or fluctuating, the average profits.)

In the case of a trade, deduction should be made from the total figure of the amount claimed for wear and tear of machinery, etc. (*See Chapter XVII.*)

Section B. A return of the names, etc., of the partners of a firm, particulars of annual charges, and of the division of profits. This section only needs completion in the case of a firm. See Example 1, page 49, for an illustration of the method of completing this section.

Section C. A formal declaration to be completed *only* in the case of firms not domiciled in the United Kingdom. (*See page 78.*)

In addition to the return made by a firm, each partner will have been served with a Form No. 11 (or 11*a*) for the completion of which see below.

Form 11 (or 11 A).

This form is provided for the use of individuals having untaxed income for assessment under Schedule D, e.g. sole traders, partners of a firm, persons in receipt of untaxed interest or income from foreign possessions, etc.

The following sections are provided for completion—

Section A. A formal declaration to be made *only* where a full return has already been made elsewhere for the year.

Section B. A full statement of all untaxed income liable to assessment under Schedule D. This section is identical with Section A of Form 1 detailed above.

Section C. A return of total income (husband and wife) from all sources, whether taxed or not. This has to be completed before the taxpayer can be granted any allowance, deduction or reduced rate of tax. The headings are as follows—

No. 1—

(a) The total untaxed income as stated in Section B.

(b) Income from any employment. (Insert income of preceding year, *see* Chapter XII.)

(c) Income from property. (Insert net Schedule A assessment, *see* Chapter XVI.)

(d) Income from occupation of land. (Insert Schedule B assessment, *see* Chapter XVI.)

(e) Income from dividends and interest taxed before receipt. (The *gross* amount should be returned. For an example of a *tax-free* dividend *see* page 109.)

(f) Wife's income if not already included under a preceding heading.

No. 2—

Details of charges on income to be deducted from the total of the foregoing. (Insert particulars of ground rent, interest on mortgages or loans, building society interest, annuities or other annual payments. No deductions from assessments may be made on account of charges, but the taxpayer recoups himself by deducting tax from the recipient as stated in Chapter XIII.)

Sections D to J. These sections relate to the allowances and deductions detailed in Chapters II and III, viz., personal allowance, allowances for children, dependent relatives and life assurance, and present no difficulty in completion.

Section K. This is a formal declaration to be made *only* by an individual not domiciled in Great Britain or Northern

Ireland, or by a British subject not ordinarily resident in Great Britain or Northern Ireland.

Form 12 (or 12 A).

This form is provided for the use of all persons deriving incomes from employments (*see* Chapter XII). The following sections require completion.

Section A. This requires a statement of gross income and expenses in the following form—

Description of Employment.	Name of Employer.	Gross Amount of	Amount.
		(1) Salary or fees for year of assessment	
		(2) Commission, bonus, or other fluctu- ating emolu- ment . . .	
		Total	£

Details of Expenses (including Superannuation Contributions).	Amount.
---	---------

Net Income £

As stated in Chapter XII, the income of the preceding year is usually given, both the taxpayer and the Revenue having the right to claim adjustment to the actual result for the year.

Section B. A return of total income identical in form with Section C of Form 11, detailed above. This has to be

completed before the usual allowances and deductions can be made.

Sections C to J. These sections relate to the allowances and deductions which the taxpayer is entitled to claim as shown in Chapters II and III.

EXAMPLE 1. The P Q R Co., Ltd., is required to make a return for 1924-25. The average adjusted income tax profit for the years 1921, 1922, and 1923 is £5,230. It has annual taxed dividends of £600 gross, untaxed War Loan interest of £350, and the agreed allowance for wear and tear for 1924-25 is £365. The company should insert in Section A of Form 1 £5,230 average profits and £350 interest, and deduct £365 from the total. Taxed dividends will be ignored. No other section needs completion.

EXAMPLE 2. A firm of merchants, A B C & Co., makes an adjusted income tax profit for 1924-25 of £3,000, divisible equally between the three partners. The firm's return will be made in accordance with the instructions elaborated in Chapter XI. Supposing A, one of the partners, has other sources of income, viz., director's fees, house and lands, dividends (self and wife), and pays ground rent, interest on loan, and life assurance. He is married with two children. In Section C of his personal return (Form 11) he will insert his director's fees and share of the A B C & Co.'s profits. Section D (statement of total income) might be as follows—

<i>From Trade, Profession, etc.</i>	£
Partner in A B C. & Co.	1,000
<i>From any Public Office, etc.</i>	
Director's fees, A Z, Ltd. (current fees)	100
<i>From Property</i>	
1-17 King Street, S.W. (net assessments)	205
<i>From the occupation of lands</i>	
Radburn, Surrey (one-third of the annual value)	32
<i>From Bank Interest, Dividends, etc.</i>	
Dividends, A Z, Ltd., taxed before receipt (gross amount)	140
<i>Wife's Income</i>	
Dividends, A Z, Ltd., taxed before receipt (gross amount)	38
Total	1,515

<i>Charges</i>		
Ground Rent	£	15
Interest £400 @ 5 per cent		20
		<hr/> 35
<i>Total Income from all sources, less charges</i>		<hr/> <u>£1,480</u>

In the remaining sections of the form, A will give the necessary particulars regarding wife, children, and life assurance. The tax due from him will be computed on the lines described in Chapters II and III.

EXAMPLE 3. R, a married commercial traveller with a salary for 1924-25 of £400 a year, lives in a house to acquire which he has borrowed £1,000 from the bank at 5½ per cent. He also receives an annual commission from his employers based on the previous year's sales. For 1923-24 the commission earned was £212. Further, R spends on an average £3 per week in out-of-pocket business expenses. R should complete his Form 12 as follows—

Section A (income from employment)—

Traveller to Universal Products, Ltd.	{ Salary	£400
	{ Commissn.	212
		612
Expenses (travelling and entertaining)		156
		<hr/> £456

Section B (total income)—

(a) <i>From Trade, Profession, etc.</i>		
Commercial Traveller		£456
(b) <i>From Property</i>		
Net Schedule A assessment on house		36
(c) <i>From Occupation of Lands</i>		Nil
(d) <i>Dividends and Interest</i>		Nil
(e) <i>Wife's Income</i>		Nil
		<hr/> 492
<i>Charges.</i> Bank Interest £1,000 @ 5½ per cent		55
<i>Net Income</i>		<hr/> <u>£437</u>

In the remaining part of the form, R will complete the section in respect of his wife and sign the necessary declaration.

His allowances and deductions will be computed as shown in Chapters II and III.

Payment of Tax.

The Finance (No. 2) Act, 1915, inaugurated the payment of income tax in instalments. The total tax due is still payable on the 1st January, in one sum, in certain cases. Where instalments are paid, these are to be equal in amount, except in the case of quarterly payments, which depend on the earnings of the particular quarter.

Where Tax is Payable in One Sum on 1st January.

Schedule B (charged on the occupiers of lands). In all cases except where the occupiers are individuals or firms occupying the lands for husbandry.

Schedule C. Tax is still deducted before the interest concerned is received by the person entitled thereto.

Schedule D. In all cases of assessments on unearned income; in all other cases, except where the assessment is on the profits or earnings of an individual or firm.

Schedule E. In no case.

Where Tax is Payable in Two Instalments.

In these cases, the first instalment is due on the 1st January within the fiscal year concerned, and the second on the following 1st July.

Schedule A. In all cases, whether due from individuals, firms, companies, or any other bodies.

Schedule B. Where the duty is payable by individuals or firms who occupy the lands concerned for husbandry.

Schedule D. Where the duty is payable by individuals or firms in respect of trade or professional profits or earnings.

Schedule E. In all cases except weekly wage-earners.

Where Tax is Payable in Four Quarterly Instalments.

This applies to weekly wage-earners employed as described in Chapter XII.

CHAPTER XIX

REPAYMENT CLAIMS—GROUNDS ON WHICH REPAYMENT MAY BE CLAIMED—LIMITATIONS WITH REGARD TO PLACE OF RESIDENCE AND TIME LIMIT—COMPLETING THE FORM—PROOF REQUIRED, VOUCHERS, ETC.

THE system of taxation by deduction already explained entails repayment claims on the part of persons entitled to allowances. With the varying exemptions and abatements which are granted year by year in these abnormal times, it is not possible to present lasting arithmetical examples worked out in detail. It is doubly necessary, therefore, that the principles underlying the matter should be so thoroughly understood by the reader that he may be able to apply them to any scale of allowances which happens to be in force.

Grounds of Repayment.

It is not sufficient for a man to say: "I have borne more tax than I ought to have done and demand repayment of the excess." Possibly he was assessed at, say, £500, when his real liability was £400. In that case he should have appealed within the prescribed time, and repayment cannot afterwards be enforced, nor is it usually granted in practice. The main grounds of repayment are (from 1920-21)—

- (i) The fact that the assessable income is below £225 in the case of a married individual and £135 in any other case ;
- (ii) That earned income relief has not been granted ;
- (iii) That an allowance in respect of children is due ;
- (iv) That an allowance in respect of dependent relatives is due ;
- (v) That a higher rate of tax has been charged (e.g. by deduction) than is due ;
- (vi) That an allowance in respect of life assurance premiums is due, or that the allowance made should be increased owing to the income just falling short of £1,000 or £2,000 ;

- (vii) That the income has borne Dominion Income Tax ;
- (viii) That tax has been paid twice on the same item ;
- (ix) That a loss has been incurred ; that a business has been set up recently or has ceased, and actual profits have fallen short of the assessment ; that a specific cause of loss has arisen. (All these matters are dealt with in Chapters VIII, IX, and X.)
- (x) That interest has been paid to a bank.

Claims under numbers (i), (ii), (iii), (iv), (v), and (vi) go forward on the standard form, a specimen of which is given as inset. Those under numbers (vii), (viii), and (ix) should be made by letter to the Inspector. The allowances referred to under numbers (i) to (vi) are dealt with in Chapters II and III, and only their operation by way of repayment is considered in this place. Claims under number (x) are usually made on a separate form, but claims can be made on the standard form, provided the necessary banker's certificate is given.

Place of Residence.

Claims under numbers (i), (ii), (iii), (iv), (v), and (vi) may be made only by a person who has a residence in this country and who resides here in the year concerned. There is an exception in the case of Crown servants and of missionaries working abroad, also in the case of persons resident abroad for the sake of their health and in a few other peculiar circumstances (*see* page 78). A person ruled out by the above proviso may make a claim only in respect of income which arises abroad and has been taxed through his name appearing in a register here (e.g. a foreign resident holding Japanese stocks the dividend on which is paid to him by a London agent).

Time Limit.

Claims under numbers (i) to (viii) and number (x) must be made within six years after the end of the fiscal year concerned, though claims will not be entertained for years prior to 1920-21. Thus a claim in respect of income arising in the fiscal year ended 5th April, 1921, must be made not later.

than 5th April, 1927. As regards number (ix) see the earlier chapters referred to.

Completing the Form.

The amount reclaimable on the ground of exemption, allowance, or relief depends largely on the aggregate income from all sources. It is, therefore, required to set out in due form the *aggregate income from all sources*. This is most often done on Inland Revenue Form No. 40, of which a specimen is printed as inset. For the purpose of the first year's claim, application should be made to the local Inspector of Taxes for this form. For succeeding years, a claim form will be sent automatically when repayment for the previous year is made. It is not always necessary to wait till after 5th April before making the claim. Interim applications may be made, or as soon as the total income for the year is received. Where a full return for the year has been made it is not necessary in many cases to fill in any further form. Repayment will be made forthwith by the Inspector of Taxes on a formal statement by the taxpayer that no income has been received beyond that stated in the original return.

(1) *Earnings*. If the claimant is an employee of a company, firm, society, corporate body, etc., or earns weekly wages by manual labour, the actual earnings of the year should be inserted. In all other cases the average earnings of the three previous years should be shown. The actual tax paid in respect of the income should be shown in the next column. In the example no tax is assumed to have been paid on the salary of £150.

(2) *House Property*. The net Schedule A assessment should be shown as the income from property, and against it should be stated the amount of tax paid under that schedule. This is explained in Chapter XVI.

(3) *Ground Rents Receivable*. In this case insert the nominal ground rent as the income and the tax deducted therefrom by the landlord in the next column.

(4) and (5) *Dividends*. The gross amount should be shown as income. Thus, in the example for the year ending April, 1924, the facts might have been shown in the secretary's letter as follows—

F. Jones, Esq.

1st May, 1924.

Dear Sir,

Herewith I beg to forward you dividend for the year ended 31st March, 1924, as follows :

<i>Dividend of 5% on £400 shares</i>	<i>£20</i>	<i>0</i>	<i>0</i>
<i>Less tax at 4s. 6d.</i>	<i>4</i>	<i>10</i>	<i>0</i>

<i>Cheque herewith for</i>	<i>£15</i>	<i>10</i>	<i>0</i>
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Yours faithfully,

A1 Manufacturing Co., Ltd.

H. Pritchard, Secretary.

It will be seen which figures have been selected for inclusion on the repayment form. A special note is necessary as to the *dates* borne by dividend counterfoils included in a particular year of assessment. Strictly speaking, every dividend should be apportioned over the fiscal years during which it accrued. Thus a dividend for a company's year ended 31st December, 1923, should be apportioned $\frac{1}{4}$ to 1922-23 and $\frac{3}{4}$ to 1923-24. In practice, however, a dividend is regarded as falling into the fiscal year in which is the date to which it *accrued*. (The date of payment is immaterial.) The claimant will be advised to set the counterfoils before him and to write the fiscal year concerned at the head of each. Thus—

Number.	Date of Payment.	Period for which the dividend is paid.	Fiscal year.
	3rd May, 1923	Quarter to 30th Apr., 1923	1923-24
	3rd Aug., 1923	" 31st July, 1923	1923-24
	3rd Nov., 1923	" 31st Oct., 1923	1923-24
	3rd Feb., 1924	" 31st Jan., 1924	1923-24
	3rd May, 1924	" 30th Apr., 1924	1924-25
	10th July, 1923	Six months to 30th June, 1923	1923-24
	8th Apr., 1924	Year to 31st Mar., 1924	1923-24
	Etc.	Etc.	Etc.

(6) *Dividend Free of Income Tax.* The facts in such a case might be shown on the Secretary's letter as follows—

F. Jones, Esq.

10th May, 1924.

Dear Sir,

Herewith I forward cheque for £20 being dividend at 5 % for the year ended 31st March, 1924, on £400 shares, free of income tax.

Yours faithfully,

B. Jones, Ltd.

A. Williams, Secretary.

Now it is obvious that F. Jones's real income from this source is £20 plus tax on the amount which, when tax is deducted therefrom, will leave £20. In the example given his income is £20 plus £5 16s. 0d., which is tax (at 4s. 6d.) on £25 16s. 0d. In other words, his income is the amount which, less tax, would leave £20. "Free of tax" merely means that the company has borne the tax out of non-distributed profits. When the rate was 4s. 6d. it was immaterial to a shareholder whether he got "£25 16s. 0d. less tax" or "£20 free of tax." His income is £25 16s. 0d. in each case.

(7) *Mortgage Interest.* Insert the gross amount receivable and the tax deducted by the mortgagor.

(8) *Untaxed Interest.* Insert the amount which was credited to dates within the *previous* fiscal year. Thus, £3 4s. is presumed to have been credited in 1922-23.

(a) Ground Rent payable.—	} Insert the gross amount due and the tax you deduct.
(b) Mortgage Interest payable.—	

(c) *Annuity payable.*—This is presumed to be a compulsory payment, by deed, otherwise it would not appear on the form.

Vouchers, etc., Required.

Here again, the numbers appearing on the specimen form will be adhered to. The idea is to attach the voucher which proves the payment of the tax shown against each item.

(1) *Earnings (or Profits).* Annex the receipt for any income tax paid.

(2) *House Property.* Annex the income tax receipt, which should be obtained from the tenant at the time he deducts the tax from his rent. If this is lost apply for a duplicate on Form No. 159 (to be obtained from the Inspector of Taxes and to be completed by the collector in question).

(3) *Ground Rent.* Annex a certificate on Form No. 185, the gist of which is as follows—

I CERTIFY that on paying to Mr. F. Jones the sum mentioned in the second column below, I deducted the tax referred to in the third column, and have accounted for or will account for such tax to the Revenue.

(Signed) A. FRANCE (*Landlord*).

The property concerned.	Amount due.	Tax deducted.	Period to which the payment relates.
1.	2.	3.	4.
26 Ashurst Lane	£8	£1 16s. 0d.	Year to 31/3/24

(4) and (6) *Dividends.* The counterfoil which accompanied the dividend warrant or cheque. If it is lost the secretary must be asked to supply a duplicate. In the case of Inscribed Stocks no voucher can be supplied, and the particulars must be inserted on page 4 of the form as follows—

Full Title of Stock or Annuity, stating whether the Dividends are paid by post or through a Bank. If paid through a Bank, the name of the Bank should be stated.	Name or Names (in due order) in which the Stock or Annuity stands. If the funds are in Court, the correct Title of the Cause or Matter must be given, and the title of the account (if any) in the Supreme Court Pay Office books.	Amount of Stock, and if part of larger Sum state also larger Sum.	Month and Year when Dividend or Annuity due, from which deduction made.
		<div>£</div> <div>s.</div> <div>d.</div>	

(7) *Mortgage Interest.* A certificate on Form No. 185 as shown under “(3) Ground Rent.”

(8) *Untaxed Items.* No vouchers are required.

(a), (b), and (c) *Charges.* No vouchers are required, except in the case of bank interest, when a certificate will be supplied by the bank manager on request.

Allowances and Deductions.

As shown on the inset, the third page of the standard repayment form contains spaces to be completed in respect of claims for: the personal allowance in the case of a married man, the allowances for “house-keeper,” children, dependent relatives, and life assurance premiums. The £135 personal allowance and the reduced rate of tax on the first £225 of taxable income are granted automatically by the Inspector. Where a claim is made in respect of life assurance the necessary receipts should be sent with the form.

The Sum Repayable.

This is arrived at by ascertaining what tax should have been borne in the year concerned and by reclaiming any excess actually borne. In the example given above, it is assumed that the claimant is not entitled to any of the reliefs enumerated on page 3 of the form.

1923-24	Net income	£282
	Deduct—Earned Income Relief (one-tenth of £150)	£15
	Personal Allowance	135
		<hr/> 150
		<hr/> £132
	Tax thereon at 2s. 3d.	£14 17 0
	Tax actually suffered (after allowing for tax retained by the claimant on the charges)	28 19 6
	Therefore repay	<hr/> £14 2 6

Repayment is made by the local Inspector in the form of a cheque.

CHAPTER XX

SUPER-TAX—GENERAL SCHEME—WHAT IS ASSUMED TO BE THE INCOME OF ANY PARTICULAR YEAR—INCOME FROM TRUSTS—UNDISTRIBUTED INCOME OF PRIVATE COMPANIES—DEDUCTIONS AND ALLOWANCES—HOW TO MAKE A RETURN—GENERAL RULES—LIMITS AND RATES

It has been shown that income tax is charged partly by direct assessment and partly by deduction. Thus a person would himself pay income tax on his trade profits, untaxed interest, etc., but would receive his dividends, rents, etc., *net*. Where super-tax is concerned, however, the distinction vanishes, this charge being invariably imposed by direct assessment in one sum on the aggregate income of the liable person. The general scheme requires returns of aggregate income from all those who surpass a stated amount (see below). These returns naturally cover all the schedules of the Income Tax Acts, and each item is checked according to the rules of those schedules. Super-tax is then charged according to scale.

The Assumed Income for Super-tax Purposes.

One might ask of the Special Commissioners who charge this tax: "You charge super-tax on my aggregate income. By what rules do you estimate this, since the matter is settled before the end of the fiscal year in question?" The answer, in brief, is that for super-tax purposes for 1924-25 the aggregate income must be calculated *for* 1923-24 practically as if for income tax purposes for 1923-24. This is not necessarily (or practically never) the same thing as calculating one's *actual* income in 1923-24. It is equivalent to completing Section C of Form 11 for 1923-24, as explained in Chapter

XVIII, and the various sources of income have to be computed according to the rules referred to in that Chapter. It is, of course, highly probable that the super-tax payer has already completed an income tax Form 11 or Form 12 for the preceding year, and if so the preparation of a super-tax return will be a simple matter.

Income from Trusts.

By the Finance Act, 1922, provisions were introduced which rendered certain income derivable from trusts liable to super-tax. The main object of the enactment was to bring into assessment income which has legally been transferred to another person by an individual who still receives the beneficial enjoyment of that income. The sources of income chargeable to tax come under the three following headings—

(a) Income of which any person is able without the consent of any other person to obtain for himself the beneficial enjoyment ;

(b) Income which by virtue of any disposition made by any person (other than a disposition made for a valuable and sufficient consideration), is payable to or applicable for the benefit of any other person for a period which cannot exceed six years ;

(c) Income which by virtue of any disposition made, by any person after the 5th April, 1914, is payable to or applicable for the benefit of a child of that person for some period less than the life of the child. (Super-tax in this case is only to be charged so long as the child is an infant and unmarried.)

For the purpose of this enactment husband and wife are regarded as being identical. There are certain complicated exceptions to the above rules, particulars of which can be obtained from the Special Commissioners on application.

Undistributed Income of Private Companies.

Provisions were also introduced in 1922 rendering the undistributed profits of certain private limited companies liable to super-tax assessment. The general principle is that such profits of a private company which could *reasonably* be distributed amongst the shareholders, after due regard has been paid to the normal business requirements of the company, shall be deemed to be the income of the shareholders, and apportioned according to their respective interests.

Deductions and Allowances.

As regards income tax, no allowance is made for fixed loan interest, ground rent, annuities, etc., because the taxpayer passes on to his creditor the charges on that portion of his gross income by deducting tax. Super-tax cannot be passed on, however, and a deduction is therefore made in this regard. In applying the general principle set out above it should be noted that the amounts payable (i.e. falling due) within the previous fiscal year should be shown in the space for "deductions." It should also be noted that two other types of deduction may be made—

(a) In the case of income from property, any increased allowance for maintenance made for income tax (*see* page 82) may also be deducted for super-tax purposes ;

(b) In the case of an individual in the service of the Crown abroad, expenses allowed by the Treasury to be necessarily incurred may be deducted.

None of the deductions and allowances enumerated in Chapters II and III is allowable for super-tax purposes. *They relate to income tax only.* However, in the case of individuals whose income is not liable to direct assessment by any Inspector of Taxes (e.g. persons whose total income is derived from taxed dividends), the income tax allowances may be claimed as a set-off against the super-tax, instead of repayment being claimed in the ordinary way.

Any super-tax payer who has received dominion income

tax relief (*see* page 77) by reference to his rate of British income tax *only* may, if the dominion rate of tax exceeded half this latter rate, claim further relief by reference to his rate of super-tax. Application should be made to the local Inspector of Taxes.

How to Make a Return.

A specimen super-tax return form is given on page 116. All that is in italics on that form constitutes our directions for its completion. To favour clearness of statement, the return for a particular year (1924-25) is shown, but the necessary amendments can easily be made for other years.

General Rules.

(1) Any person liable to super-tax is required to give notice of that fact to the Special Commissioners of Income Tax, Kingsway, London, W.C. 2. All persons served with a form are required to make returns, whether they are liable or not. The penalty for default is £50, and £50 per diem for such period after judgment has been given during which the default continues.

(2) After a notice of assessment has been issued, the person charged has 28 days within which to appeal.

(3) Payment is required to be made to the Accountant General, Somerset House, W.C.2, "on or before" the 1st January in each year.

(4) A statement of aggregate income must include the wife's income as well as the husband's. If either husband or wife gives notice before 6th July in any year (but not more than six months before) they may be dealt with in every respect as if they are not married, except that the total super-tax due shall still be calculated on the combined aggregate income and apportioned between them proportionately. After seven days' notice, also, the goods of the husband may be seized to cover duties left unpaid by the wife.

Specimen Super-tax Return, 1924-25

No. 1. PARTICULARS OF INCOME.

ANNUAL
AMOUNT.

- (a) From Trade, Profession, Office, Employment, or Vocation.
The average profits for 1920-21, 1921-22, and 1922-23.
If a partner, his share of the firm's income tax assessment,
1923-24.
If an official of a company, society, public body, etc., his
actual income in 1923-24.
- (b) From Property (including the annual value of the
 property which I own and occupy).
The nett Schedule A assessment on the property in
1923-24, i.e. the amount on which tax was charged
in 1923-24.
-
- (c) From the occupation of land.
The Schedule B assessment in 1923-24, i.e. the amount
on which tax was charged in 1923-24.
- (d) From Bank and other Interest, Annuities, Dividends, or
 other Income not already entered on this page.
Dividends, etc., from which tax was deducted before receipt
or which are paid "free of income tax"—the amount
which would have been received in 1923-24 had every-
thing been paid on the day to which it accrued and had
the taxpayer been paid gross and left to bear his own
income tax (see page 109 (6)).
Foreign and Colonial Securities, Stocks, Shares and
Rents from which income tax was not deducted by an
Agent in the United Kingdom—the amount assessed
to income tax for 1923-24, i.e. the income which arose
whether received here or not. (See Table on page 75.)
Other Untaxed Foreign and Colonial income—the
amount assessed to income tax for 1923-24, i.e. the
average sums received in the United Kingdom in
1920-21, 1921-22, and 1922-23.
Interest arising in the United Kingdom credited or paid
without the deduction of income tax—the amount which
arose in 1922-23.
- (e) Wife's Income (giving particulars).
According to the facts, as under (a), (b), (c), and (d).

Total Income.

No. 2. PARTICULARS OF ANY CHARGES ON INCOME.

Insert the amounts of ground rents, annuities, patent
royalties, interest and similar sums due from the
person making the return in 1923-24: also the names
and addresses of the recipients.

Charges.

Net Income for Super-tax purposes, 1924-25.

Only liable if
 this exceeds
 the prescribed.

Limits and Rates for 1924-25.

All incomes exceeding £2,000 are liable to super-tax and are charged as follows—

(This scale has been in operation as from 1920-21.)

On the first £2,000 of a man's income Nil

				<i>s.</i>	<i>d.</i>	
„	next	£500	„	1	6	in the £
„	„	£500	„	2	0	„
„	„	£1,000	„	2	6	„ (the 4th thousand)
„	„	£1,000	„	3	0	„ („ 5th „)
„	„	£1,000	„	3	6	„ („ 6th „)
„	„	£1,000	„	4	0	„ („ 7th „)
„	„	£1,000	„	4	6	„ („ 8th „)
„	„	£12,000	„	5	0	„ („ 9th-20th ths.)
„	„	£10,000	„	5	6	„ („ 21st-30th ths.)
On all beyond	£30,000	.	.	6	0	

CHAPTER XXI

CORPORATION PROFITS TAX

THIS tax (first imposed by the Finance Act, 1920) is charged on all companies and bodies corporate where the liability of members is limited. The charge is made—

(a) On the profits of a British company carrying on any trade or business, or any undertaking of a similar character, including the holding of investments ;

(b) On the profits of a foreign company carrying on in the United Kingdom any trade or business, or any undertaking of a similar character so far as these profits arise in the United Kingdom.

Concerns Exempt.

(1) Any company formed prior to 4th August, 1920, whose assets consist wholly of stock or other securities issued by any public authority and formerly held by the persons who formed the company.

(2) As from 1st January, 1922, any company established solely for the advancement of religion or education and which, under the terms of its articles, is prohibited from distributing any of its profits to members.

(3) Building societies.

(4) Mutual trading concerns registered under the Industrial and Provident Societies Acts.

(5) Public utility companies, i.e. gas, water, electricity, tramway, hydraulic power, dock, canal or railway undertakings, limited by statute, to the charge of fixed prices and the payment of dividends at a fixed rate.

NOTE. It is important to note that, owing to the difference in scope of this tax and the income tax, the fact that a concern is exempt from income tax owing to technical reasons of "residence" and "control" does not necessarily mean that it is also exempt from Corporation Profits Tax.

Income Exempt.

(1) The first £500 of the profits as computed for the purposes of the tax.

(2) Interest arising from $3\frac{1}{2}$ per cent and $4\frac{1}{2}$ per cent Conversion Loan, and $5\frac{1}{2}$ per cent, 5 per cent, and $4\frac{1}{2}$ per cent Treasury Bonds.

(3) Income received directly or indirectly from a company whose profits are chargeable to Corporation Profits Tax.

(4) Repayments of Excess Profits Duty.

(5) Until 31st December, 1925, any profits derived from a public utility company by a company holding a controlling interest therein.

Rate of Tax.

From the commencement of the tax on 1st January, 1920, up to 30th June, 1923, the rate of tax was *one shilling in the £* on all profits over £500. As from 1st July, 1923, the rate was reduced to *sixpence in the £* for all profits over the same margin. It is provided in the case of a British company that the tax charged for any period may not exceed 10 per cent of the adjusted profits, after deduction has been made from the latter of any interest on debentures or preference shares (where the rate is fixed), on permanent loan issued before 4th August, 1920, or any debentures or permanent loan issued after that date to replace an equal amount thereof issued before that date.

Accounting Periods.

Unlike income tax, this tax is charged for a period of twelve months ending on the date to which the accounts of the concern are usually made up. Where accounts have not been made up, or have been made for a period greater or less than twelve months, or the business has changed hands, the accounting period shall be such period not exceeding twelve months as the Commissioners of Inland Revenue may determine.

In the case of accounting periods which commenced prior

to the introduction of the duty on 1st January, 1920, and ended afterwards, or commenced before 1st July, 1923, when the reduced rate became operative and ended afterwards, the profits are to be apportioned. E.g. in the case of a year's account to 31st December, 1923, one-half of the profits would be liable to tax at 5 per cent and one-half to tax at $2\frac{1}{2}$ per cent.

How the Profits are Computed.

Profits are computed according to the rules of Schedule D for the assessment of a trade, whether or not the profits fall within Schedule D for income tax purposes. The profits to be taken are those for the accounting period, and not an average as for income tax. The following special adjustments have to be made to the profits for Corporation Profits Tax purposes, apart from those already required for income tax purposes.

(1) DEDUCTIONS ALLOWABLE.

- (a) Rents paid.
- (b) Royalties paid (other than to a person having a controlling interest in the company).
- (c) Annual payments from which income tax has been deducted (other than dividends).
- (d) Interest on borrowed moneys (except interest on permanent loan, or interest paid to a person having a controlling interest).
- (e) Profits distributed to employees under any profit-sharing scheme.

(f) Excess Profits Duty.

(2) DEDUCTIONS DISALLOWABLE.

No deductions are allowed in respect of any of the following items—

- (a) Interest paid on permanent loans or to persons having a controlling interest in the company.

(In the case of a company which derives at least half of its gross income from property in the United Kingdom, interest on its *property* mortgages may be deducted.)

(b) Royalties paid to any person having a *controlling interest*.

(c) Remuneration exceeding £1,000 per annum paid to any person having a controlling interest.

(d) Income Tax or Corporation Profits Tax. (It is therefore necessary to bring into charge the *gross* amount of taxed dividends received and not the net amount after deduction of income tax.)

(e) The annual value of the company's premises. (In the case of mills, factories, and similar premises situated abroad a deduction of one-sixth is allowed as for income tax purposes, *see* page 96.)

(f) Depreciation, renewals, obsolescence or capital expenditure in excess of that already allowed for income tax purposes. (*Note.* As the wear and tear allowance for income tax is made *for the financial year*, it is usually necessary to apportion two years' income tax allowances to arrive at the correct Corporation Profits Tax deduction.)

EXAMPLE. The Profit and Loss Account of the A B C Corporation, Ltd., is as follows—

PROFIT AND LOSS ACCOUNT

To 30TH SEPTEMBER, 1923

To Salaries, wages, and commission . . .	£3,500	By Gross profit . . .	£25,000
„ Rent, rates, and insurance . . .	1,780	„ War Loan Dividends (net) . . .	1,550
„ Light and heat . . .	1,560	„ E.P.D. repayment . . .	560
„ Directors' fees . . .	1,200	„ Untaxed interest . . .	340
„ Reserve for Income Tax and Corporation Profits Tax . . .	1,000		
„ Bad debts w/o . . .	750		
„ Depreciation w/o . . .	600		
„ General office expenses . . .	580		
„ Debenture interest . . .	500		
„ Bank interest . . .	360		
„ Legal and accountancy . . .	250		
„ Donations to charity . . .	40		
„ Net profit . . .	15,330		
	<hr/>		
	£27,450		£27,450

Let it be assumed that there is only one director and that he has a controlling interest in the company. The income tax depreciation allowance for 1922-23 was £480, and for 1923-24 £360.

Corporation Profits Tax Adjustment.

Net Profit as per accounts to 30th Sept., 1923	£15,330
<i>Add</i> —Director's fees (excess)	£200
Taxation reserves	1,000
Depreciation w/o	600
Debenture interest	500
Donations	40
Tax deducted from dividends received (4s. 6d. in the £ on £2,000)	450
	<hr/> 2,790
	18,120
<i>Deduct</i> —E.P.D. repayment	560
Wear and tear allowance— ($\frac{1}{2} \times £480$) + ($\frac{1}{2} \times £360$)	420
	<hr/> 980
	17,140
Deduct margin	500
	<hr/> £16,640
Proportion from 1st October, 1922, to 30th June, 1923— $\frac{2}{3}$ of £16,640	£12,480
Proportion from 1st July, 1923, to 30th September, 1923— $\frac{1}{3}$ of £16,640	£4,160
<i>Tax Due</i> —£12,480 @ 5 per cent	£624
£4,160 @ $2\frac{1}{2}$ per cent	104
Total	<hr/> £728

General Notes.

Where super-tax has been charged on a company in respect of its undistributed profits (*see* page 114), repayment may be claimed of any Corporation Profits Tax paid in respect of the same profits.

Heavy penalties are liable to be inflicted on any company which, for the purpose of avoiding the payment of tax, "enters into any fictitious or artificial transaction."

Although no deduction may be made from Corporation Profits Tax, profits in respect of income tax, Corporation Profits Tax may be deducted from income tax profits.

Assessment is made by the Commissioners of Inland Revenue, and appeal may be made to the District Commissioners of Income Tax or to the Special Commissioners of Income Tax. Tax is payable on the expiration of two months from the date of assessment.

APPENDIX I

TEST EXERCISES AND SOLUTIONS

(1) ACCOUNTS show profits of £910 (1921), £840 (1922), and £920 (1923) after the following expenses (among others) have been charged. State the amount of the assessment for 1924-25.

	1921.	1922.	1923.
(a) Lease Rent (business only) .	£ 90	£ 90	£ NIL: premises purchased
(b) Ground Rent	—	—	10
(c) Interest on Bank Overdraft .	53	59	51
(d) Interest on Loan from a Partner	10	10	10
(e) Interest on Capital	61	60	62

(2) An account shows a profit of £1,800, after bad debts reserve has been increased from £400 to £450 (£75 added out of profits and £25 deducted on account of specific debts written off). £200 royalties have also been charged (£70 patent royalties and £130 book royalties). The two partners have each drawn £150 wages. One partner has been allowed £110 interest on capital, the other has been charged £9 on account of deficiency of capital. Show the necessary income tax adjustments.

(3) The following particulars show all that it is necessary to know in order that certain accounts may be adjusted for income tax purposes. Make the adjustment—

Loss £90, after charging Depreciation of Lease £20, Embezzlement by Clerk £70, Income Tax £9, House Duty (on manager's rent-free residence) £1, Poor Rates on Trade Premises £34, Legal Expenses £29 (including Debt Collection £4, cost of acquiring patent £8, cost of preventing infringement of patent by rival firm £17).

(4) A firm owns its trade premises, assessed under Schedule A on £420 gross, £350 net. One of the partners sleeps on the premises in order to supervise such of the employees as also

live in. He occupies three rooms only. A portion of the ground floor is let as offices, the rent (£120 inclusive of rates) being credited in the accounts. The total poor rates are £130 per annum. Ground rent £80 and mortgage interest £100 are charged against profits. Lighting £115 and heating £97 have been charged. Make the necessary income tax adjustments, assuming that the firm's accounts show a final profit of £1,700.

(5) Two doctors, both in practice in the district, join partnership as from the 1st January, 1922. Their profits have been as follows: 1920, A £800; B £1,050; 1921, A £820; B £1,000. In 1922 A takes four-ninths and B five-ninths of the profits, which (for tax purposes) amount to £1,880. The system continues in 1923, when the profits are £1,800. State the assessments for 1923-24 and 1924-25.

(6) The facts are as in the preceding question up to 31st December, 1922, when a third partner enters. For 1923 and 1924 the basis of the division of profits is A one-third, B four-ninths, C two-ninths, and the profit is £2,300. State the assessment for 1923-24 and 1924-25—

(a) If C has been in practice in the district and made £360 in 1920, £380 in 1921, and £370 in 1922;

(b) If C commenced practice in the district on 1st January, 1922, and made £180 in 1922;

(c) If C has not been in practice in the district prior to 1st January, 1923.

(7) How would the assessment in question (5) be apportioned between the partners in 1923-24 and 1924-25? In question (6) how should the apportionment be made, dealing with (a), (b), and (c) separately?

(8) In which of the years in which cases (question (7)) may one or all of the partners claim to be assessed individually?

(9) In question (5) what assessment would you suggest for 1923-24 if A had made up his accounts to 31st December, 1920 and 1921, and B to 30th June, 1920, 30th June, 1921, and 31st December, 1921 (A's profits £800 and £820; B's profits £1,050, £1,000, and £510)?

(10) A trader commenced business on 1st January, 1920, and his yearly profits (after adjustment) have been £200 (1920), £400 (1921), £500 (1922), and £550 (1923).

(a) State the normal assessments for as many years as possible.

(b) Can any adjustment be claimed?

(11) A trader commenced business on 1st January, 1920, and his yearly profits (after adjustment) have been £200 (1920), £400 (1921), £100 (1922), and £280 (1923).

(a) State the normal assessment for as many years as possible.

(b) Can any adjustment be claimed?

(12) The following is the record of an old business during the years referred to—

1918. Profit	.	.	£	800	1921. Loss	.	.	£	300
1919. "	.	.	900	1922. Profit	.	.	100		
1920. "	.	.	500	1923. "	.	.	300		

(a) State the normal assessments for 1921–22, 1922–23, 1923–24, and 1924–25.

(b) State the assessments if an adjustment is claimed.

(13) The business referred to in question (12) closes down at 31st December, 1924, after making £15 profit in 1924. What adjustments could be claimed if the conditions were as in (a) and if as in (b) in the previous questions?

(14) What allowances can be claimed for the year 1924–25, the circumstances being as follows—

Firm's assessment, £1,050; Partners' share: A £400; B £350; C £300. Partners' private (unearned) incomes: A £78; B £460; C Nil. Partners' life assurance premiums: A £19; B Nil; C £30. Children under 16: A (unmarried) Nil; B three; C one.

(15) An unmarried man's sole income is represented by a salary of £402. He pays £15 allowable life assurance premiums and £4 interest on a loan secured on his policies. What assessment would be made if a return form has been duly completed? What tax would he ultimately bear (a) in 1921–22, (b) in 1922–23, and (c) in 1923–24.

(16) A married man has an earned income of £400, and his wife has a net investment income from taxed dividends of £310. He has three children under 16 and supports his aged parents, whose total income amounts to £60 per annum. What is his tax position for the year 1923-24?

(17) An unmarried lady resident in England has a total income derived from taxed dividends from English and South African companies as follows—

		Gross Dividends.	
		S. Africa.	England.
Year ended 5th April, 1921	.	£200	£150
" " " 1922	.	100	160
" " " 1923	.	300	170
" " " 1924	.	250	190

Assuming that tax has been deducted from the South African dividends each year at the rate of 2s. in the £, what is the net amount of British income tax payable for the year 1923-24 after allowance of British dominion income tax relief?

(18) A house is rented at £50, the owner doing repairs. The owner also pays £8 ground rent and £15 mortgage interest. What tax is paid in 1924-25 and what deductions are made?

(19) The rate for 1922-23 was 5s., and that for 1923-24 4s. 6d. At what rate would the secretary of a profit-making concern deduct tax from dividend for the half-year ended 30th June, 1923?

(20) A man's profits (adjusted as necessary but not averaged) and taxed income are as follows—Trade £1,100 in 1921—

	1922.	1923.	1924.
	£	£	£
Trade	1,200	1,300	Unknown
Dividends	1,000	1,200	1,500
Wife's Dividends	800	900	900
Interest Paid Away	100	100	100

Prepare a super-tax return. For which year can this be done on the above data?

SKELETON SOLUTIONS.

(1)		1921.	1922.	1923.
		£	£	£
(a)	.	.	.	90
(b)	.	.	.	10
(d)	.	10	10	10
(e)	.	61	60	62
Profit	.	910	840	920
		<u>981</u>	<u>910</u>	<u>912</u>
		3(2803)		
		<u>£934 for 1924·25</u>		
£90 is assumed to be the net Schedule A assessment, as probably will be.				
(2)	Profit	.	.	£1,800
Add—	B.D. Reserve	.	£50	
	Patent Royalties	.	70	
	Partner's Wages	.	300	
	„ Interest	.	101	
			<u>521</u>	
			<u>£2,321</u>	
(3)	Loss	.	.	£90
Disallow—	Depreciation	.	£20	
	Income Tax	.	9	
	Legal Expenses	.	8	
			<u>37</u>	
	Loss	.	.	<u>£53</u>
(4)	Profit	.	.	£1,700
Add —	Ground Rent	.	£80	
	Interest	.	100	
	Gas and Coal	.	5	
	Rates	.	130	
			<u>315</u>	
			<u>£2,015</u>	
Deduct—	Rent Received	.	£120	
	$\frac{2}{3}$ (£420 - £120 + £130)	.	287	
			<u>407</u>	
			<u>£1,608</u>	

When £130 Rates are added and £120 Rent is deducted, the account will contain nothing in respect of rent or rates. The way is now clear to allow the full sum due, i.e. $\frac{2}{3}$ of the Annual Value of the premises occupied by the firm, plus $\frac{1}{3}$ of the rates applicable thereto. (But see page 31.)

(5)	1923-24.		1924-25.
	£		£
£800 + £1,050 . . .	1,850	£820 + £1,000	1,820
£820 + £1,000 . . .	1,820		1,880
	1,880		1,880
	<hr/>		<hr/>
	3)5,550		3)5,500
	<hr/>		<hr/>
	£1,850		£1,833

(6) (a)	1923-24.		1924-25.
	£		£
£800 + £1,050 + £360	2,210	£820 + £1,000 + £380	2,200
£820 + £1,000 + £380	2,200	£1,880 + £370 .	2,250
£1,880 + £370 .	2,250		2,300
	<hr/>		<hr/>
	3)6,660		3)6,750
	<hr/>		<hr/>
	£2,220		£2,250

(b)	£		£
£800 + £1,050	1,850	£820 + £1,000	1,820
£820 + £1,000	1,820		1,880
	1,880		2,300
	<hr/>		<hr/>
	3)5,550		3)6,000
	<hr/>		<hr/>
	1,850		2,000
	180	$\frac{1}{3} \times 180$.	120
	<hr/>		<hr/>
	£2,030		£2,120

In (b) 1923-24 add a fair annual average for C's practice. In (b) 1924-25 add $\frac{1}{3}$ thereof, inasmuch as £2,000 contains $\frac{1}{3}$ of C's profits in 1923.

(c)		£
£1,850 (as in No. 5)	£820 + £1,000 . . .	1,820
		1,880
		2,300
		<hr/>
		3)6,000
		<hr/>
		£2,000

					£		£
1923-24	.	.	.	.	A $\frac{1}{3}$	$\times 1,850$	$= 822$
					B $\frac{2}{3}$	$\times 1,850$	$= 1,028$
1924-25	.	.	.	.	A $\frac{1}{3}$	$\times 1,833$	$= 815$
					B $\frac{2}{3}$	$\times 1,833$	$= 1,018$
(a) 1923-24	.	.	.	.	A $\frac{1}{3}$	$\times 2,220$	$= 740$
					B $\frac{2}{3}$	$\times 2,220$	$= 987$
					C $\frac{2}{3}$	$\times 2,220$	$= 493$
1924-25	.	.	.	.	A $\frac{1}{3}$	$\times 2,250$	$= 750$
					B $\frac{1}{3}$	$\times 2,250$	$= 1,000$
					C $\frac{2}{3}$	$\times 2,250$	$= 500$
(b) 1923-24	.	.	.	.	A $\frac{1}{3}$	$\times 2,030$	$= 677$
					B $\frac{1}{3}$	$\times 2,030$	$= 902$
					C $\frac{2}{3}$	$\times 2,030$	$= 451$
1924-25	.	.	.	.	A $\frac{1}{3}$	$\times 2,120$	$= 707$
					B $\frac{1}{3}$	$\times 2,120$	$= 942$
					C $\frac{2}{3}$	$\times 2,120$	$= 471$
(c) 1923-24	.	.	.	.	A $\frac{1}{3}$	$\times 1,850$	$= 617$
					B $\frac{1}{3}$	$\times 1,850$	$= 822$
					C $\frac{2}{3}$	$\times 1,850$	$= 411$
1924-25	.	.	.	.	A $\frac{1}{3}$	$\times 2,000$	$= 667$
					B $\frac{1}{3}$	$\times 2,000$	$= 889$
					C $\frac{2}{3}$	$\times 2,000$	$= 444$

(8) None.

(9) A $\pounds 800 + \pounds 820 = \pounds 1,620 = 2$ years' profits.

B $\pounds 1,050 + \pounds 1,000 + \pounds 510 = \pounds 2,560 = 2\frac{1}{2}$ years' profits.

Proportion for 2 years $= \pounds 2,048$.

Firm's assessment 1923-24 $= \frac{1,620 + 2,048 + 1,880}{3} = \pounds 1,849$.

(10) (a) 1919-20, $\pounds 50 (\frac{1}{4} \times \pounds 200)$; 1920-21, $\pounds 200$; 1921-22, $\pounds 200$; 1922-23, $\pounds 300$; 1923-24, $\pounds 367$; 1924-25, $\pounds 483$.

(b) No.

(11) (a) 1919-20, $\pounds 50 (\frac{1}{4} \times \pounds 200)$; 1920-21, $\pounds 200$; 1921-22, $\pounds 200$; 1922-23, $\pounds 300$; 1923-24, $\pounds 233$; 1924-25, $\pounds 260$.

(b) 1922-23 to actual profits, being less than assessment ($\frac{1}{4} \times \pounds 100$ and $\frac{1}{4} \times \pounds 280$) $= \pounds 145$. Accounts usually "split" under this provision.

(12) (a) $\pounds 733$, $\pounds 367$, $\pounds 100$, $\pounds 33$.

(b) $\pounds 733$ less repayment $\pounds 300$, $\pounds 467$, $\pounds 200$, and $\pounds 133$.

Accounts not usually "split" under this provision.

(13) (a) 1924-25, reduce $\pounds 33$ to $\pounds 15$; 1921-22, 1922-23, and 1923-24 assessments as above were $\pounds 733 + \pounds 367 + \pounds 100 = \pounds 1,200$; repay down to $\pounds \text{Nil} + \pounds 100 + \pounds 300$, i.e. repay on $\pounds 1,200 - \pounds 400 = \pounds 800$.

(b) 1924-25, reduce $\pounds 133$ to $\pounds 15$; 1922-23, 1923-24, and 1924-25,

assessments as above were £433 + £467 + £200 = £1,100, reduce down to £Nil + £100 + £300, i.e. repay on £1,100 - £400 = £700.

Alternatively, the accounts might be "split."

(14)	A.	B.	C.
Earned Income Relief	40	35	30
Marriage Allowance .	—	225	225
Personal Allowance .	135	—	—
Children's Allowance .	—	90	36
Life Assurance .	£19 @ 2/3	—	£30 @ 2/3

(15) Total income less £4 charge = £398. (a) For 1921-22 deduct £39 16s. earned income relief and £135 personal allowance and charge the remainder, £223 4s. at 3s. = £33 9s. 7d. Add tax on £4 at 6s. and deduct life assurance allowance £15 at 3s. Net tax payable = £32 8s. 7d.

(b) For 1922-23 charge £223 4s. at 2s. 6d., add tax on £4 at 5s., and deduct £15 at 2s. 6d. Net tax payable = £27 0s. 6d.

(c) For 1923-24 charge £223 4s. at 2s. 3d., add tax on £4 at 4s. 6d., and deduct £15 at 2s. 3d. Net tax payable = £24 6s. 6d.

(16) Total income: Husband .	£400	
Wife .	400	(Tax deducted £90)

Allowances—	£	800
Earned Income Relief .	40	
Personal Allowance .	225	
Children .	90	
Relatives .	50	
		405
		<u>£395</u>

	£	s.	d.
Tax on £225 @ 2s. 3d. .	25	6	3
„ „ £170 @ 4s. 6d. .	38	5	0
	<u>£63</u>	<u>11</u>	<u>3</u>

Repayment of £26 8s. 9d. may therefore be claimed.

(17) For 1923-24 the income from S. Africa will be taken on the average of the three preceding years = £200.

Total Income for 1923 24 .	£	390
Deduct Personal Allowance .		135
Taxable Income .		<u>£255</u>
Tax Payable .	£32	1s. 3d.

The appropriate rate of British Income Tax = $\frac{£32 \text{ 1s. 3d.}}{255} = 2\text{s. 6d.}$

As the Dominion rate is 2s., relief will be given at half the appropriate British rate, i.e. £200 at 1s. 3d. = £12 10s. The net British tax payable is hence £32 1s. 3d., *less* £12 10s. = £19 11s. 3d. But tax has already been deducted at the source from £190 British dividends at 4s. 6d. = £42 15s., hence repayment will be due of £42 15s., *less* £19 11s. 3d. = £22 2s. 9d.

(18) £40 at 4s. 6d. = £9. Tenant deducts £9 from rent. Landlord deducts £1 16s. from ground rent, and £3 7s. 6d. from interest.

(19) Half at 5s. and half at 4s. 6d. = 4s. 9d.

(20) $\frac{£1,100 + £1,200 + £1,300}{3} = £1,200$. Add £1,500 + £900; deduct £100. Income £3,500 on which super-tax is charged for 1925-26.

APPENDIX II

RATES OF TAX

TABLE I

DUTY AT 2s. 3d. ON THE FIRST £225 OF TAXABLE INCOME

In- come.	Duty.			In- come.	Duty.			In- come.	Duty.			In- come.	Duty.		
£	£	s.	d.	£	£	s.	d.	£	£	s.	d.	£	£	s.	d.
1		2	3	31	3	9	9	61	6	17	3	91	10	4	9
2		4	6	32	3	12	0	62	6	19	6	92	10	7	0
3		6	9	33	3	14	3	63	7	1	9	93	10	9	3
4		9	0	34	3	16	6	64	7	4	0	94	10	11	6
5		11	3	35	3	18	9	65	7	6	3	95	10	13	9
6		13	6	36	4	1	0	66	7	8	6	96	10	16	0
7		15	9	37	4	3	3	67	7	10	9	97	10	18	3
8		18	0	38	4	5	6	68	7	13	0	98	11	0	6
9		0	3	39	4	7	9	69	7	15	3	99	11	2	9
10		2	6	40	4	10	0	70	7	17	6	100	11	5	0
11		4	9	41	4	12	3	71	7	19	9	101	11	7	3
12		7	0	42	4	14	6	72	8	2	0	102	11	9	6
13		9	3	43	4	16	9	73	8	4	3	103	11	11	9
14		11	6	44	4	19	0	74	8	6	6	104	11	14	0
15		13	9	45	5	1	3	75	8	8	9	105	11	16	3
16		16	0	46	5	3	6	76	8	11	0	106	11	18	6
17		18	3	47	5	5	9	77	8	13	3	107	12	0	9
18	2	0	6	48	5	8	0	78	8	15	6	108	12	3	0
19	2	2	9	49	5	10	3	79	8	17	9	109	12	5	3
20	2	5	0	50	5	12	6	80	9	0	0	110	12	7	6
21	2	7	3	51	5	14	9	81	9	2	3	111	12	9	9
22	2	9	6	52	5	17	0	82	9	4	6	112	12	12	0
23	2	11	9	53	5	19	3	83	9	6	9	113	12	14	3
24	2	14	0	54	6	1	6	84	9	9	0	114	12	16	6
25	2	16	3	55	6	3	9	85	9	11	3	115	12	18	9
26	2	18	6	56	6	6	0	86	9	13	6	116	13	1	0
27	3	0	9	57	6	8	3	87	9	15	9	117	13	3	3
28	3	3	0	58	6	10	6	88	9	18	0	118	13	5	6
29	3	5	3	59	6	12	9	89	10	0	3	119	13	7	9
30	3	7	6	60	6	15	0	90	10	2	6	120	13	10	0

TABLE I—DUTY AT 2s. 3d. (contd.)

In- come.	Duty.	In- come.	Duty.	In- come.	Duty.	FRACTIONS OF A s			
						Income.	Duty.		
121	5. 12	161	5. 2	201	5. 12	5. d.	5. d.		
122	5. 12	162	5. 2	202	5. 12	5. d.	5. d.		
123	5. 12	163	5. 2	203	5. 12	5. d.	5. d.		
124	5. 12	164	5. 2	204	5. 12	5. d.	5. d.		
125	5. 12	165	5. 2	205	5. 12	5. d.	5. d.		
126	5. 12	166	5. 2	206	5. 12	5. d.	5. d.		
127	5. 12	167	5. 2	207	5. 12	5. d.	5. d.		
128	5. 12	168	5. 2	208	5. 12	5. d.	5. d.		
129	5. 12	169	5. 2	209	5. 12	5. d.	5. d.		
130	5. 12	170	5. 2	210	5. 12	5. d.	5. d.		
131	5. 12	171	5. 2	211	5. 12	5. d.	5. d.		
132	5. 12	172	5. 2	212	5. 12	5. d.	5. d.		
133	5. 12	173	5. 2	213	5. 12	5. d.	5. d.		
134	5. 12	174	5. 2	214	5. 12	5. d.	5. d.		
135	5. 12	175	5. 2	215	5. 12	5. d.	5. d.		
136	5. 12	176	5. 2	216	5. 12	5. d.	5. d.		
137	5. 12	177	5. 2	217	5. 12	5. d.	5. d.		
138	5. 12	178	5. 2	218	5. 12	5. d.	5. d.		
139	5. 12	179	5. 2	219	5. 12	5. d.	5. d.		
140	5. 12	180	5. 2	220	5. 12	5. d.	5. d.		
141	5. 12	181	5. 2	221	5. 12	5. d.	5. d.		
142	5. 12	182	5. 2	222	5. 12	5. d.	5. d.		
143	5. 12	183	5. 2	223	5. 12	5. d.	5. d.		
144	5. 12	184	5. 2	224	5. 12	5. d.	5. d.		
145	5. 12	185	5. 2	225	5. 12	5. d.	5. d.		
146	5. 12	186	5. 2	226	5. 12	5. d.	5. d.		
147	5. 12	187	5. 2	227	5. 12	5. d.	5. d.		
148	5. 12	188	5. 2	228	5. 12	5. d.	5. d.		
149	5. 12	189	5. 2	229	5. 12	5. d.	5. d.		
150	5. 12	190	5. 2	230	5. 12	5. d.	5. d.		
151	5. 12	191	5. 2	231	5. 12	5. d.	5. d.		
152	5. 12	192	5. 2	232	5. 12	5. d.	5. d.		
153	5. 12	193	5. 2	233	5. 12	5. d.	5. d.		
154	5. 12	194	5. 2	234	5. 12	5. d.	5. d.		
155	5. 12	195	5. 2	235	5. 12	5. d.	5. d.		
156	5. 12	196	5. 2	236	5. 12	5. d.	5. d.		
157	5. 12	197	5. 2	237	5. 12	5. d.	5. d.		
158	5. 12	198	5. 2	238	5. 12	5. d.	5. d.		
159	5. 12	199	5. 2	239	5. 12	5. d.	5. d.		
160	5. 12	200	5. 2	240	5. 12	5. d.	5. d.		

TABLE II—DUTY AT 4s. 6d.

In- come.	Duty.			In- come.	Duty.			In- come.	Duty.			In- come.	Duty.					
£	£	s.	d.	£	£	s.	d.	£	£	s.	d.	£	£	s.	d.			
1		4	6	41		9	4	6	81		18	4	6	121		27	4	6
2		9	0	42		9	9	0	82		18	9	0	122		27	9	0
3		13	6	43		9	13	6	83		18	13	6	123		27	13	6
4		18	0	44		9	18	0	84		18	18	0	124		27	18	0
5	1	2	6	45	10	2	6	85	19	2	6	125	28	2	6	28	2	6
6	1	7	0	46	10	7	0	86	19	7	0	126	28	7	0	28	7	0
7	1	11	6	47	10	11	6	87	19	11	6	127	28	11	6	28	11	6
8	1	16	0	48	10	16	0	88	19	16	0	128	28	16	0	28	16	0
9	2	0	6	49	11	0	6	89	20	0	6	129	29	0	6	29	0	6
10	2	5	0	50	11	5	0	90	20	5	0	130	29	5	0	29	5	0
11	2	9	6	51	11	9	6	91	20	9	6	131	29	9	6	29	9	6
12	2	14	0	52	11	14	0	92	20	14	0	132	29	14	0	29	14	0
13	2	18	6	53	11	18	6	93	20	18	6	133	29	18	6	29	18	6
14	3	3	0	54	12	3	0	94	21	3	0	134	30	3	0	30	3	0
15	3	7	6	55	12	7	6	95	21	7	6	135	30	7	6	30	7	6
16	3	12	0	56	12	12	0	96	21	12	0	136	30	12	0	30	12	0
17	3	16	6	57	12	16	6	97	21	16	6	137	30	16	6	30	16	6
18	4	1	0	58	13	1	0	98	22	1	0	138	31	1	0	31	1	0
19	4	5	6	59	13	5	6	99	22	5	6	139	31	5	6	31	5	6
20	4	10	0	60	13	10	0	100	22	10	0	140	31	10	0	31	10	0
21	4	14	6	61	13	14	6	101	22	14	6	141	31	14	6	31	14	6
22	4	19	0	62	13	19	0	102	22	19	0	142	31	19	0	31	19	0
23	5	3	6	63	14	3	6	103	23	3	6	143	32	3	6	32	3	6
24	5	8	0	64	14	8	0	104	23	8	0	144	32	8	0	32	8	0
25	5	12	6	65	14	12	6	105	23	12	6	145	32	12	6	32	12	6
26	5	17	0	66	14	17	0	106	23	17	0	146	32	17	0	32	17	0
27	6	1	6	67	15	1	6	107	24	1	6	147	33	1	6	33	1	6
28	6	6	0	68	15	6	0	108	24	6	0	148	33	6	0	33	6	0
29	6	10	6	69	15	10	6	109	24	10	6	149	33	10	6	33	10	6
30	6	15	0	70	15	15	0	110	24	15	0	150	33	15	0	33	15	0
31	6	19	6	71	15	19	6	111	24	19	6	151	33	19	6	33	19	6
32	7	4	0	72	16	4	0	112	25	4	0	152	34	4	0	34	4	0
33	7	8	6	73	16	8	6	113	25	8	6	153	34	8	6	34	8	6
34	7	13	0	74	16	13	0	114	25	13	0	154	34	13	0	34	13	0
35	7	17	6	75	16	17	6	115	25	17	6	155	34	17	6	34	17	6
36	8	2	0	76	17	2	0	116	26	2	0	156	35	2	0	35	2	0
37	8	6	6	77	17	6	6	117	26	6	6	157	35	6	6	35	6	6
38	8	11	0	78	17	11	0	118	26	11	0	158	35	11	0	35	11	0
39	8	15	6	79	17	15	6	119	26	15	6	159	35	15	6	35	15	6
40	9	0	0	80	18	0	0	120	27	0	0	160	36	0	0	36	0	0

DUTY AT 4s. 6D CONTD.

TABLE

In- come	Dut	In- come	s	u	In- come	Duty	u	In- come	Dut
61	36	201	45	4	241	54	4	281	63
62	36	202	45	9	242	54	0	282	63
63	36	203	45	13	243	54	0	283	63
64	36	204	45	18	244	54	0	284	63
65	37	205	46	12	245	55	0	285	64
66	37	206	46	17	246	55	0	286	64
67	37	207	46	11	247	55	0	287	64
68	37	208	46	16	248	55	0	288	64
69	37	209	47	10	249	56	0	289	65
70	38	210	47	5	250	56	0	290	65
71	38	211	47	9	251	56	0	291	65
72	38	212	47	4	252	56	0	292	65
73	38	213	47	8	253	56	0	293	65
74	39	214	48	3	254	57	0	294	66
75	39	215	48	7	255	57	0	295	66
76	39	216	48	2	256	57	0	296	66
77	39	217	48	6	257	57	0	297	66
78	40	218	49	1	258	57	0	298	67
79	40	219	49	5	259	57	0	299	67
80	40	220	49	0	260	57	0	300	67
181	49	221	49	4	261	58	0	301	67
182	49	222	50	9	262	58	0	302	67
183	50	223	50	3	263	59	0	303	68
184	50	224	50	8	264	59	0	304	68
185	50	225	50	2	265	59	0	305	68
186	50	226	50	7	266	59	0	306	68
187	51	227	51	1	267	60	0	307	69
188	51	228	51	6	268	60	0	308	69
189	51	229	51	0	269	60	0	309	69
190	51	230	51	5	270	60	0	310	69
191	4	231	51	9	271	60	0	311	69
192	4	232	52	4	272	61	0	312	70
193	4	233	52	8	273	61	0	313	70
194	4	234	52	3	274	61	0	314	70
195	4	235	52	7	275	61	0	315	70
196	4	236	53	2	276	62	0	316	71
197	4	237	53	6	277	62	0	317	71
198	4	238	53	1	278	62	0	318	71
199	4	239	53	5	279	62	0	319	71
200	4	240	54	0	280	63	0	320	72

TABLE II.—DUTY AT 4s. 6d. (*contd.*)

In- come.	Duty.			In- come.	Duty.			In- come.	Duty.			In- come.	Duty.		
£	£	s.	d.	£	£	s.	d.	£	£	s.	d.	£	£	s.	d.
321	72	4	6	361	81	4	6	401	90	4	6	441	99	4	6
322	72	9	0	362	81	9	0	402	90	9	0	442	99	9	0
323	72	13	6	363	81	13	6	403	90	13	6	443	99	13	6
324	72	18	0	364	81	18	0	404	90	18	0	444	99	18	0
325	73	2	6	365	82	2	6	405	91	2	6	445	100	2	6
326	73	7	0	366	82	7	0	406	91	7	0	446	100	7	0
327	73	11	6	367	82	11	6	407	91	11	6	447	100	11	6
328	73	16	0	368	82	16	0	408	91	16	0	448	100	16	0
329	74	0	6	369	83	0	6	409	92	0	6	449	101	0	6
330	74	5	0	370	83	5	0	410	92	5	0	450	101	5	0
331	74	9	6	371	83	9	6	411	92	9	6	455	102	7	6
332	74	14	0	372	83	14	0	412	92	14	0	460	103	10	0
333	74	18	6	373	83	18	6	413	92	18	6	465	104	12	6
334	75	3	0	374	84	3	0	414	93	3	0	470	105	15	0
335	75	7	6	375	84	7	6	415	93	7	6	475	106	17	6
336	75	12	0	376	84	12	0	416	93	12	0	480	108	0	0
337	75	16	6	377	84	16	6	417	93	16	6	485	109	2	6
338	76	1	0	378	85	1	0	418	94	1	0	490	110	5	0
339	76	5	6	379	85	5	6	419	94	5	6	495	111	7	6
340	76	10	0	380	85	10	0	420	94	10	0	500	112	10	0
341	76	14	6	381	85	14	6	421	94	14	6	600	135	10	s.
342	76	19	0	382	85	19	0	422	94	19	0	700	157	10	
343	77	3	6	383	86	3	6	423	95	3	6	800	180	0	
344	77	8	0	384	86	8	0	424	95	8	0	900	202	10	
345	77	12	6	385	86	12	6	425	95	12	6	1,000	225	0	
346	77	17	0	386	86	17	0	426	95	17	0	1,100	247	10	
347	78	1	6	387	87	1	6	427	96	1	6	1,200	270	0	
348	78	6	0	388	87	6	0	428	96	6	0	1,300	292	10	
349	78	10	6	389	87	10	6	429	96	10	6	1,400	315	0	
350	78	15	0	390	87	15	0	430	96	15	0	1,500	337	10	
351	78	19	6	391	87	19	6	431	96	19	6	1,600	360	0	
352	79	4	0	392	88	4	0	432	97	4	0	1,700	382	10	
353	79	8	6	393	88	8	6	433	97	8	6	1,800	405	0	
354	79	13	0	394	88	13	0	434	97	13	0	1,900	427	10	
355	79	17	6	395	88	17	6	435	97	17	6	2,000	450	0	
356	80	2	0	396	89	2	0	436	98	2	0	3,000	675	0	
357	80	6	6	397	89	6	6	437	98	6	6	4,000	900	0	
358	80	11	0	398	89	11	0	438	98	11	0	5,000	1,125	0	
359	80	15	6	399	89	15	6	439	98	15	6	6,000	1,350	0	
360	81	0	0	400	90	0	0	440	99	0	0	7,000	1,575	0	

TABLE II—DUTY AT 4s. 6d. (*contd.*)

In- come.	Duty.		FRACTIONS OF A £		FRACTIONS OF A £	
			Income.	Duty.	Income.	Duty.
£	£	s.	s.	d.	s.	d.
8,000	1,800	0	4	=	1	10 4 = 2 4
9,000	2,025	0	8	=	2	10 8 = 2 5
10,000	2,250	0	1 1	=	3	11 1 = 2 6
11,000	2,475	0	1 5	=	4	11 5 = 2 7
12,000	2,700	0	1 10	=	5	11 10 = 2 8
13,000	2,925	0	2 2	=	6	12 2 = 2 9
14,000	3,150	0	2 7	=	7	12 7 = 2 10
15,000	3,375	0	2 11	=	8	12 11 = 2 11
16,000	3,600	0	3 4	=	9	13 4 = 3 0
17,000	3,825	0	3 8	=	10	13 8 = 3 1
18,000	4,050	0	4 0	=	11	14 0 = 3 2
19,000	4,275	0	4 5	=	1 0	14 5 = 3 3
20,000	4,500	0	4 9	=	1 1	14 9 = 3 4
30,000	6,750	0	5 2	=	1 2	15 2 = 3 5
40,000	9,000	0	5 6	=	1 3	15 6 = 3 6
50,000	11,250	0	5 11	=	1 4	15 11 = 3 7
100,000	22,500	0	6 3	=	1 5	16 3 = 3 8
			6 8	=	1 6	16 8 = 3 9
			7 0	=	1 7	17 0 = 3 10
			7 4	=	1 8	17 4 = 3 11
			7 9	=	1 9	17 9 = 4 0
			8 1	=	1 10	18 1 = 4 1
			8 6	=	1 11	18 6 = 4 2
			8 10	=	2 0	18 10 = 4 3
			9 3	=	2 1	19 3 = 4 4
			9 7	=	2 2	19 7 = 4 5
			10 0	=	2 3	

TABLE III—SUPER-TAX TABLE

	Super-Tax	Income	Super-Tax	Super-Tax	Super-Tax
2,000	$\frac{1}{2}$ Ni	2,431	$\frac{1}{2}$ Ni	5	$\frac{1}{2}$ Ni
2,010	15	2,441	33	5	73
2,020	15	2,451	33	5	74
2,030	15	2,461	34	5	75
2,040	15	2,471	35	5	76
2,050	15	2,481	36	5	77
2,060	15	2,491	36	5	78
2,070	15	2,501	37	5	79
2,080	15	2,511	38	5	80
2,090	15	2,521	39	5	81
2,100	15	2,531	40	5	82
2,110	15	2,541	40	5	83
2,120	15	2,551	41	5	84
2,130	15	2,560	42	5	85
2,140	15	2,570	43	5	86
2,150	15	2,580	44	5	87
2,160	15	2,590	45	5	88
2,170	15	2,600	46	5	89
2,180	15	2,610	47	5	90
2,190	15	2,620	48	5	91
2,200	15	2,630	49	5	92
2,210	15	2,640	50	5	93
2,220	15	2,650	51	5	94
2,230	15	2,660	52	5	95
2,240	15	2,670	53	5	96
2,250	15	2,680	54	5	97
2,260	15	2,690	55	5	98
2,270	15	2,700	56	5	99
2,280	15	2,710	57	5	00
2,290	15	2,720	58	5	01
2,300	15	2,730	59	5	02
2,310	15	2,740	60	5	03
2,320	15	2,750	61	5	04
2,330	15	2,760	62	5	05
2,340	15	2,770	63	5	06
2,350	15	2,780	64	5	07
2,360	15	2,790	65	5	08
2,370	15	2,801	66	5	09
2,380	15	2,811	67	5	10
2,390	15	2,821	68	5	11
2,400	15	2,831	69	5	12
2,410	15	2,841	70	5	13
2,420	15	2,851	71	5	14
			72	5	15
				5	16
				5	17
				5	18
				5	19
				5	20
				5	21
				5	22

TABLE III—SUPER-TAX TABLE (*contd.*)

Income.	Super-Tax.	Income.	Super-Tax.	Income.	Super-Tax.
£	£ s.	£	£ s.	£	£ s.
4,580	299 10	4,910	349 0	7,300	805 0
4,590	301 0	4,920	350 10	7,400	827 10
4,600	302 10	4,930	352 0	7,500	850 0
4,610	304 0	4,940	353 10	7,600	872 10
4,620	305 10	4,950	355 0	7,700	895 0
4,630	307 0	4,960	356 10	7,800	917 0
4,640	308 10	4,970	358 0	7,900	940 0
4,650	310 0	4,980	359 10	8,000	962 10
4,660	311 10	4,990	361 0	8,100	987 10
4,670	313 0	5,000	362 10	8,200	1,012 10
4,680	314 10	5,100	380 0	8,300	1,037 10
4,690	316 0	5,200	397 10	8,400	1,062 10
4,700	317 10	5,300	415 0	8,500	1,087 10
4,710	319 0	5,400	432 10	8,600	1,112 10
4,720	320 10	5,500	450 0	8,700	1,137 10
4,730	322 0	5,600	467 10	8,800	1,162 10
4,740	323 10	5,700	485 0	8,900	1,187 10
4,750	325 0	5,800	502 10	9,000	1,212 10
4,760	326 10	5,900	520 0	9,100	1,237 10
4,770	328 0	6,000	537 10	9,200	1,262 10
4,780	329 10	6,100	557 10	9,300	1,287 10
4,790	331 0	6,200	577 10	9,400	1,312 10
4,800	332 10	6,300	597 10	9,500	1,337 10
4,810	334 0	6,400	617 10	9,600	1,362 10
4,820	335 10	6,500	637 10	9,700	1,387 10
4,830	337 0	6,600	657 10	9,800	1,412 10
4,840	338 10	6,700	677 10	9,900	1,437 10
4,850	340 0	6,800	697 10	10,000	1,462 10
4,860	341 10	6,900	717 10	20,000	3,962 10
4,870	343 0	7,000	737 10	30,000	6,712 10
4,880	344 10	7,100	760 0	50,000	12,712 10
4,890	346 0	7,200	782 10	100,000	27,712 10
4,900	347 10				

INDEX

ABROAD, persons residing, 19, 78
 Accounts, adjustment of, 21
 Additions to assets, 23, 91
 Adjustment of accounts, 21
 ———, specimens of, 25, 28, 30
 ———, C.P.T., 122
 Administration, 3
 Advertising, 31
 Aggregate income, income tax, 5
 ———, super-tax, 112
 Allowances and deductions, income tax, 5, 11, 15, 111
 ———, quarterly assessments, 61
 ———, repairs, 82
 ———, super-tax, 114
 Annual payments, deduction of tax from, 63, 68
 ——— not made from taxed income, 67
 ——— return of employees, 58
 value, 80
 Annuities, 12, 14
 Appropriate rate, 77
 Assessable income, 6, 11
 Assessments, 32
 ———, quarterly, 58
 Assessors, 3
 Assets, 23
 Assurance, life, 11
 Averaging profits, 32
 ———, exceptions, 35

BACHELORS, 6
 Bad debts reserve, 24, 28
 Bank interest, 14, 71
 Bonuses, 56
 British subjects resident abroad, 19
 Building society interest, 87
 Business premises abroad, 96
 ———, repairs to, 89

CAPITAL expenditure, 22
 Cash account, 30

Cessation of business, 37
 Change of occupation, 84
 ——— of proprietor, 33
 Changing rates of tax, 69
 Channel Islands, residents in, 19
 Children's allowance, 7
 Closing years of business, 37
 Collectors, 3
 Colonial income, 74
 Commercial traveller, 57
 Commission, 56
 Commissioners of Taxes, 3
 Company, return by, 102
 Completion of returns, 98
 Corporation Profits Tax, 118

DEBENTURE interest, 23
 Deduction of tax, 63, 68
 Deductions, income tax, 5, 11
 ———, super-tax, 114
 Deferred annuities, 12
 Dependent relatives, 8
 Depreciation, 27
 ——— of buildings, 95
 ——— of machinery, 91
 Disability pensions, 56
 Dividend warrants, 108
 Dividends, foreign, 75
 Dominion income, 74
 ——— tax relief, 77, 115
 Donations, 28
 Double claims, 44
 Drawings, 23

EARLY years of business, 34, 36
 Earned income, relief for, 5
 ———, wife's, 7
 Employees, assessment of, 56
 ———, returns by, 103
 Exceptions to average system, 35, 40
 Excess Profits Duty, 31
 Expenses, employees', 57
 ———, traders', 22

- FACTORIES** abroad, 96
 Farmers, 83
 Female relatives, 8
 Finance Act, before passage of, 69
 Firms, 48
 Foreign income, 74
 Form 1, 98
 — 11, 99
 — 12, 101
 —, repayment claim, 107

GARDEN, assessment of, 83
 Government employees abroad, 19
 Gratuities, 28, 56
 Ground rent, 14, 23, 25, 28
 Grounds of repayment, 105
 Guarantee premiums, 57

HIRE-PURCHASE, 31
 Hotel expenses, 57
 Housekeeper, allowance for, 8
 Houses, assessment of, 80
 Husband and wife, income tax, 5, 17
 —, super-tax, 113, 115

IMPROVEMENTS, 23, 31, 91
 Income, charges on, 14
 —, total, 5
 — tax laws, 1
 — year, 2
 Inspector of taxes, 3
 Instalments, payment by, 104
 Insurance, 11
 Interest, 23, 70
 — account, 29
 —, building society, 87
 —, deduction of tax from, 65
 — on loans, 14, 23, 68
 Investments, realization of, 31
 Ireland, income arising in, 74
 Isle of Man, residents in, 19

LAND tax, 88
 Landlords exempt, 86
 Lease, depreciation of, 27
 Life assurance, 11
 Loss, effect on average, 42
 —, specific cause of, 47
 —, trading, 40, 46
 Lost rent, 85

MACHINERY, depreciation of, 27, 91
 — not in use, 93
 —, replacement of, 26
 Manual workers, 60
 Marriage allowance, 7
 Missionaries, 19
 Mortgage interest, 14, 23, 86

NON-RESIDENTS, 19, 78

OBSOLESCENCE, 96
 Occupier, 84
 Officials, 3
 Owner-occupiers, 85

PARTNERSHIPS, assessment of, 48
 —, completion of returns by, 102
 —, interest paid by, 65
 Patent royalties, 23
 Payment of tax, 104
 Pensions, 6, 56
 Personal allowance, 6
 — expenses, 22, 57
 Place of assessment, 60
 — of residence, 106
 Policies, assurance, 11
 Preliminary expenses, 23
 Premiums, insurance, 11, 31
 — on share issue, 23
 Private companies, super-tax on, 114
 Professional fees, 57
 Profit, adjustment of, 21
 —, averaging, 32
 — and loss account, 27
 Property tax, 80
 Proprietor, change in, 33, 46
 — residing on business premises, 23, 30

QUARTERLY assessments, 2, 58

RATES of tax, 11
 —, changing, 69
 —, super-tax, 117
 Realization of investments, 31
 Referees, Board of, 93
 Relatives, allowance for, 8
 Renewals and replacements, 91
 Rent, lost, 85

Rent-free residence, 31
 Repairs to business premises, 82
 — to houses, 89
 Repayment claims, 15, 16, 105
 — of loan, 23
 Replacement of machinery, 26
 Reserves, 23, 28
 Residence, 78
 Returns, completion of, 98
 — of employees, 58
 —, super-tax, 115

SALARIES, assessment of, 56
 —, "free of tax," 57
 Schedule A, 2, 80
 — B, 2, 83
 — C, 2
 — D, 2, 21, 32, 36, 40, 48
 — E, 3, 56
 Schedules, general note, 2
 Scholarships, 8
 Shares, foreign, 75
 Short-loan interest, 71
 Specific cause of loss, 47
 Specimen adjustment of accounts,
 25
 Spinsters, 7
 Standard rate, 11
 Statutory income, 5, 32
 Sub-letting premises, 30
 Subscriptions, trade, 31
 Superannuation contributions, 57
 Super-tax, 112
 Suspense account, 24

TAXABLE income, 6, 11
 Taxed dividends, 23
 Tax-free dividend, 109
 — salary, 57
 Tenants, liability to tax, 84
 —, when exempt, 86
 Time limit for claims, 106
 Trader, return by, 102
 Trading account, 25
 —, cessation of, 37
 —, commencement of, 36
 Travelling expenses, 57
 Trust income, 113

UNDISTRIBUTED income of com-
 panies, 114
 Unmarried persons, 6
 Untaxed interest, 70

VOLUNTARY payments to em-
 ployees, 56
 Vouchers, repayment claim, 109

WAGES paid, 25
 War Loan interest, 72
 Wear and tear of plant, 91
 Weekly wage-earners, 58
 Widowers, 7
 Widows, 7
 Wife, allowance for, 7
 —, husband and, 5, 17
 —, income of, 17
 —, separate assessment of, 17
 Wounds pensions, 56
 Written-down value of plant, 93

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